

Stock Market Update

Equity

The Ukrainian Exchange index (UX) declined by 0.9% to 1295 points last week. TurboAtom (TATM) was the worst-performing blue chip, falling 5.8% to UAH 7.90. Quotes for UkrNafta (UNAF) were flat at UAH 129 per share. CentrEnergO (CEEN) added 4.9% to close at UAH 5.10 after the company unveiled a net profit of 89 kopecks per share for 3Q20. Raiffeisen Bank Aval (BAVL) inched down by 0.3% to 36.00 kopecks.

In major macroeconomic statistics, the industrial production index dropped by 4.4% YoY in September with the manufacturing sector showing a 5.8% YoY contraction in the period. Meanwhile, retail sales continued to rebound from the COVID decline, with the retail turnover index rising 11.6% YoY in September and by 6.7% YoY in 9M20.

London-listed Ferrexpo (FXPO) advanced by 8.0% to Gbp 184 as benchmark Fe 62% iron ore prices hover near their local maximum of USD 120 per tonne. Enwell Energy (formerly Regal) rose 4.3% to Gbp 20.3 thanks to increasing natural gas prices in Ukraine where the company's operations are concentrated. Poultry producer MHP (MHPC) climbed by 1.0% to USD 5.86 after the company said it boosted its sales volume by 18% YoY in 3Q20.

On the Warsaw Stock Exchange, Kernel (KER) rose by 2.3% to PLN 40.30 while Astarta (AST) surged by 20% to PLN 21.10 after the company got additional working capital injection from the EBRD.

On the currency front, the hryvnia edged up by 0.1% against the dollar to close at 28.32 UAH/USD. The National Bank left its key refinancing rate unchanged at 6.0% after its Oct 22 policy meeting, with the next meeting schedule for Dec 10. The NBU also updated its macroeconomic forecasts, saying it expects full-year consumer inflation of 4.1%, up from the tiny 2.3% 12-month inflation registered after the September data. The NBU sees the country's GDP drop for 2020 at 6.0% YoY, with a recovery of 4.0% in 2021.

Highlights

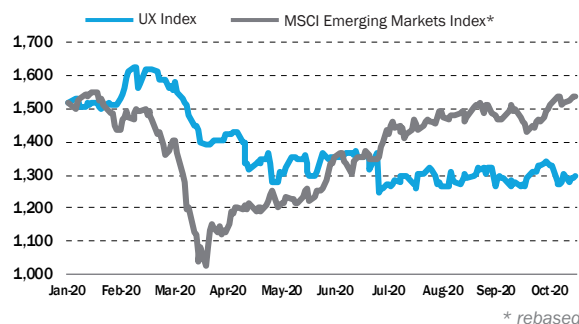
POLITICS AND ECONOMICS

- > Zelenskiy's Party Suffers Crushing Loss in Kyiv Amid Klitschko Show of Strength

STOCKS IN THE NEWS

- > CentrEnergO Beats Expectations with UAH 331mn Net Profit in 3Q20
- > MHP's Poultry Sales Volume Up 18% YoY in 3Q20 Amid Pricing Slump

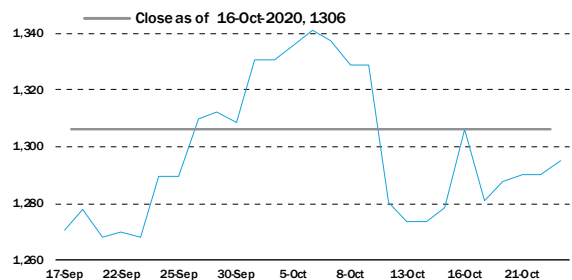
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1295	-0.9%	-14.7%
RTS	1157	2.2%	-25.3%
WIG20	1632	-1.4%	-24.0%
MSCI EM	1136	1.1%	1.9%
S&P 500	3465	-0.5%	7.2%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.7%/9.7%	0.0 p.p.	-0.4 p.p.
Ukraine-2025	7.6%	0.3 p.p.	1.0 p.p.
Ukraine-2028	8.7%	0.3 p.p.	1.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.32	-0.1%	19.5%
EUR/UAH	33.48	0.7%	26.7%

Source: Eavex Capital

Zelenskiy's Party Suffers Crushing Loss in Kyiv Amid Klitschko Show of Strength

by Will Ritter
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NEWS

President Zelenskiy's Servant of the People (SN) party got hammered in Kyiv's municipal elections on Sunday (Oct 25), winning only about 9% of the vote for seats in the city council, according to comprehensive exit polling. SN finished a distant third behind the UDAR party of mayor Vitaliy Klitschko (21%) and the European Solidarity party of former President Petro Poroshenko (18%). In the mayoral race, Klitschko was headed for a dominant victory, picking up nearly 50% of the vote in a crowded field of 18 candidates; the candidate from Zelenskiy's party won only about 7%. Klitschko will still need to win a runoff in two weeks if his official vote tally comes in under 50%; the second-place candidate appears to be former Kyiv mayor Olexander Popov of the Russian-leaning Opposition Platform, who held the post from 2011-13 after being appointed in an acting capacity by then-President Victor Yanukovich. Servant of the People saw equally dismal results in other major Ukrainian cities, with none of Zelenskiy's candidates winning key mayorships or even entering runoffs. In Kharkiv, veteran Russophone mayor Gennadiy Kernes was elected outright to a third term; in Dnipro, incumbent Boris Filatov finished comfortably in first place ahead of a runoff; in Odessa, incumbent Gennadiy Truxanov, long a target of anti-corruption campaigners, will likely be running against an Opposition Platform competitor in the second round; and in Lviv, 3-term incumbent Andriy Sadoviy will face a tough challenge from a European Solidarity candidate in the runoff. Zelenskiy's best result of the day came in his hometown of Kriviy Rih, where the SN mayoral candidate entered the runoff against the incumbent by winning 30% of the vote in the industrial southeastern city. Municipal and provincial elections are held all over Ukraine on the same date every four years. The nationwide voter turnout for the election was reported at 37%.

COMMENTARY

Klitschko's apparent re-election in Kyiv represents a spectacular turnaround in his political fortunes, after it appeared only a year ago that Zelenskiy was set to force Klitschko out of office and appoint his own favored candidate to the post. This election has exposed Zelenskiy's declining popularity in the capital city and indeed across much of Central and Western Ukraine. On the other hand, the Servant of the People party has never been a key element of Zelenskiy's political brand, which relies almost entirely on his personal celebrity, and we think it is too early to draw any definitive conclusions about a collapse in support for the president. However, we can state that Klitschko, who has confirmed his hold on the de-facto second-most-important political post in Ukraine, has put himself in position to be a serious contender in Ukraine's next presidential ballot. Klitschko will not have his own dominant faction in the Kyiv city council, but European Solidarity would appear to be a natural ally for UDAR; together, the two parties will control a majority of the council's seats. Of Ukraine's largest municipalities, the most competitive mayoral runoff race looks to be in Lviv, where Sadoviy may finally have exhausted his appeal in Western Ukraine's largest city following his failed attempts in recent years to become a top national politician.

CentrEnergO Beats Expectations with UAH 331mn Net Profit in 3Q20

by Dmitry Churin
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CENTRENERGO (CEEN UK)

Price: UAH 5.10 Market Cap: USD 67mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.3	0.1	neg	neg	0.0%
2020E	0.3	0.1	neg	9.7	0.0%

NEWS

CentrEnergO, Ukraine's largest thermal electricity generation company by installed capacity, earned UAH 331mn (USD 12mn) in net profit in 3Q20 compared to a net loss of UAH 291mn a year ago, according to the company's profit & loss statement released last week. On the top line, net revenue jumped by 56% YoY to UAH 5.68bn and EBITDA was UAH 339mn compared to a negative EBITDA of UAH -211mn in 3Q19. For 9M20, CentrEnergO's net loss was UAH 163mn compared to a net loss of UAH 1.48bn a year earlier. The company has not published its balance sheet for 3Q20 yet for no disclosed reason.

CENTRENERGO'S FINANCIAL RESULTS

UAH mn	3Q19	3Q20	YoY	9M19	9M20	YoY
Net revenue	3,643	5,681	+55.9%	10,902	14,929	+36.9%
EBITDA	-211	399	-/+	-1,442	39	-/+
EBITDA margin	-5.8%	7.0%	+12.8 p.p.	-13.2%	0.3%	+13.5 p.p.
Net Income	-291	331	-/+	-1,488	-163	-/-
Net margin	-8.0%	5.8%	+13.8 p.p.	-13.6%	-1.1%	+12.6 p.p.

Source: Company data,

COMMENTARY

It was a pleasant surprise for us to see that CentrEnergO managed to get back to profitable operation in 3Q20. The company's implied net profit of 89 kopecks per share for the quarter confirms our positive view on CentrEnergO's ability to demonstrate decent financial results under better management. The State Property Fund replaced the company's CEO earlier this year. Nevertheless, an EBITDA margin of 7.0% for 3Q20 is still a low level of profitability compared to what the company should have, taking into account its importance for the Ukrainian electricity market. Unfortunately, we do not expect CentrEnergO to improve its profitability in 4Q20 but in the longer term, there is a reasonable assumption that the EBITDA margin could grow to at least 15%.

We forecast that CentrEnergO will end FY20 with a net loss of UAH 150mn after a marginal net profit of UAH 13mn in 4Q20.

CentrEnergO's stock reacted positively to the earnings release, advancing by 4.9% to UAH 5.10.

MHP's Poultry Sales Volume Up 18% YoY in 3Q20 Amid Pricing Slump

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 5.86 Market Cap: USD 619mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.5	0.9	2.9	4.9	4.8%
2020E	0.6	0.9	neg	4.4	4.8%

NEWS

London-listed MHP (MHPC), Ukraine's largest poultry producer, reported a solid increase of 18% YoY in its sales volume to 195,100 tonnes in 3Q20, according to an operational update published on Oct 21. Meanwhile, MHP's poultry output declined by 3% YoY to 181,600 tonnes in 3Q20, mainly due to an increased share of small-bird production. In terms of pricing, the company said that the average achieved price dropped by 11% YoY in USD terms in 3Q20 to USD 1.36/kg amid a 5% YoY devaluation in the Ukrainian currency against the dollar compared to the corresponding period of 2019. In hryvnia terms, MHP's average poultry pricing decreased by 7% YoY. For 2020 overall (through September), the company reported that poultry sales volume is up by 2% YoY to 523,700 tonnes. Exports accounted for 53% of the volume in the period, with the share remaining unchanged compared to the corresponding period of 2019. In the sunflower oil segment, the 9M20 sales volume fell 9% YoY to 248,200 tonnes, with all of the sales being exports. In the agro segment, the company expects to harvest 1.78mn tonnes (-26% YoY) of crops with a final corn harvest of 915,000 tonnes this season. The dry summer led to a sharp drop in average corn yield from 9.4 tonnes/hectare in 2019 to 5.9 tonnes/ha this year. MHP continues to operate a land bank of 360,000 hectares.

MHP OPERATIONAL UPDATE

Poultry	3Q19	3Q20	Change	9M19	9M20	Change
Sales volume, tonnes	165,963	195,119	+18%	511,241	523,759	+2%
Price per 1 kg net VAT (USD)	1.53	1.36	-11%	1.48	1.34	-9%

Source: Companies' data

COMMENTARY

If the price for poultry were not declining this year, MHP's operational report for 3Q would have been much more impressive. However, we cheer the company's willingness to tap its inventories accumulated in the previous quarters. Overall, MHP's production facilities operated at full capacity in July-September, implying that the company sees strong demand for its product both on domestic and export markets. MHP's output was almost unchanged in a yearly comparison in 9M20, amounting to 541,600 tonnes of poultry. MHP's financial results for the third quarter and 9M20 are due on Nov 18. The company had a net loss of USD 62mn for 1H20 due to non-cash foreign exchange losses in the period. We forecast that MHP's net loss will be at USD 40mn in 3Q20. On the other hand, on the EBITDA level, we forecast that the company will earn around USD 100mn.

The MHPC stock has been weak throughout 2020, falling from USD 9.00 to USD 5.86 per share year-to-date. The stock's minimum this year was USD 5.14 in mid-September.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	40.3	65.0	61%	BUY	<p>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.</p> <p>Kernel's full-year EBITDA for the 2020 financial year (the company's financial year runs from July to June) increased by 28% YoY to USD 443mn with an EBITDA margin grew from 8.7% to 10.8%.</p> <p>The company aims to achieve EBITDA of USD 500mn in 2021.</p> <p>In the company's core sunflower oil segment, there was a long-awaited improvement in the so-called "crushing margin" to USD 100 EBITDA per tonne of sunflower oil sold in FY20. This was driven by a strong harvest of sunflower seeds in Ukraine and a generally more favorable sunflower oil pricing environment. Oilseed processing is an export-oriented business, and 95% of Kernel's produced sunflower oil is exported in bulk, with the EU, Iraq, India, and China all being key markets.</p>
MHP	MHPC LI	5.9	11.5	96%	BUY	<p>For full-year 2019, MHP increased its top line revenue by 32% YoY to USD 2.06bn and boosted its net profit by 68% YoY to USD 215mn. Export revenue rose by 28% YoY to USD 1.19bn in the period, accounting for 58% of total revenue. The company has declared a strategy of shifting toward more value-added processed products for the domestic market with the aim of improving profit margins. In terms of operating targets, MHP aims to produce up to 880,000 tonnes of poultry meat by 2024, up from some 730,000 tonnes last year. In the grain growing segment, MHP harvested around 360,000 hectares of land in Ukraine and gathered 2.41mn tonnes of crops in 2019.</p>
Astarta	AST PW	21.1	27.0	28%	BUY	<p>The company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 3.5x. The continuing high debt burden is one of the primary reasons of the AST stock's poor performance in recent years. However, the company claims that its adjusted net debt, which takes into account marketable inventories, is about half of the figure derived from standard accounting calculations, and therefore implies an adjusted Net Debt/EBITDA ratio of 1.7x as of Dec 31.</p>
Agroton	AGT PW	4.08	12.0	194%	BUY	<p>Agroton unveiled a strategy to increase its land bank from 119,000 ha to 200,000 ha by mid-2021 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region.</p> <p>Agroton reported that its net profit was USD 5.2mn (PLN 0.96 per share) in 2019. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 11.8mn. The company continues to invest in growth, spending USD 6.3mn on CapEx in FY19.</p>
Iron Ore						
Ferrexpo	FXPO LN	184	250	36%	BUY	<p>Iron ore market has seen a major shift over the past two years as China's anti-pollution drive spurs demand for cleaner ore, exploding the spreads between top-quality material and lower-grade cargoes, which benefits Ferrexpo as top-quality pellets producer.</p>
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	<p>Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project.</p> <p>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.</p>
Oil & Gas						
UkrNafta	UNAF	129	270	110%	BUY	<p>UkrNafta's fundamental value should see an immediate jump after the company reaches a deal with the government on restructuring its huge UAH 12bn tax debt. We believe that with the state owning a 50% stake in UkrNafta, the resolution of the tax debt issue is only a matter of time.</p>
Enwell Energy (ex-Regal)	ENW LN	20.3	--	--	U/R	
JKX Oil & Gas	JKX LN	25.5	--	--	U/R	
Power Utilities						
DonbasEnergO	DOEN	19.0	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.</p>
CenterEnergO	CEEN	5.10	15.00	194%	BUY	<p>The CEEN stock has been in a downward trend since October 2018, falling from a level of UAH 18 to the current level of UAH 5 per share after yet another failed attempt to privatize the company. 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. In 2019 Kyiv court closed the 15-year old case related to the company's possible bankruptcy. The court decision was long-awaited and should help to make CentrEnergO more attractive for privatization.</p>
Banks						
Raiffeisen Bank Aval	BAVL	0.360	--	--	U/R	<p>Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, earned UAH 4.7bn in net profit in FY19, which implied earnings per share of 7.72 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 approved 6.95 kopecks in dividend per share from FY19 net profit.</p>

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 2020E
			1W	YtD				2019	2020E	2019	2020E	
UX Index	UX	1295	-0.9%	-14.7%								
Iron Ore Mining												
Ferrexpo	FXPO	184	8.0%	15.5%	1405	1579	24.0%	3.5	3.3	2.7	2.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.6	0.0%	6.1%	67	41	5.0%	2.2	7.3	1.1	2.9	0.2
Specialized Machinery												
Turboatom	TATM	7.9	-5.8%	-25.3%	118	115	3.8%	9.6	5.6	2.3	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	395	394	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	129	0.0%	-11.1%	246	242	3.0%	neg	13.5	3.5	2.8	0.2
Enwell Energy (ex-Regal)	ENW	20.3	4.1%	-7.1%	85	45	21.6%	8.5	10.6	2.0	2.3	0.8
JKX Oil	JKX	25.5	6.0%	7.6%	57	165	50.4%	2.6	19.0	3.9	5.9	2.3
Power Utilities												
Centrenergo	CEEN	5.10	4.9%	-44.9%	67	65	21.7%	neg	-15	neg	9.7	0.1
Donbasenergo	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.6	1.9	1.6	0.1
Consumer												
MHP	MHPC	5.86	1.0%	-35.6%	619	1837	34.1%	2.9	-4.1	4.9	4.4	0.9
Kernel	KER	40.30	2.3%	-16.0%	834	1814	61.8%	7.1	6.1	4.1	3.6	0.4
Astarta	AST	21.10	20.9%	31.9%	137	413	37.0%	73.0	17.5	4.8	4.0	0.7
Avangardco	AVGR	0.01	0.0%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	4.08	6.5%	10.3%	23	11	25.0%	4.4	5.7	5.0	1.0	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.360	-0.3%	17.0%	782		1.8%	4.2	4.7	1.4	1.5	0.22

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		
		2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	2020E
Iron Ore Mining																
Ferrexpo	FXPO	1274	1507	1430	503	586	570	39.5%	38.9%	39.9%	335	403	420	26.3%	26.7%	29.4%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
Specialized Machinery																
Turboatom	TATM	94	110	113	40	49	56	43.1%	45.0%	49.1%	28	12	21	29.9%	11.1%	18.4%
Motor Sich	MSICH	450	358	345	96	19	100	21.2%	5.2%	29.1%	46	-14	31	10.2%	-3.8%	8.9%
Oil & Gas																
Ukrnafta	UNAF	1328	1097	1127	350	70	85	26.4%	6.4%	7.6%	237	-158	18	17.8%	-14.4%	1.6%
Regal Petroleum	RPT	60	50	55	54	22	19	90.0%	44.0%	34.5%	42	10	8	na	20.0%	14.5%
JKX Oil	JKX	93	102	73	31	42	28	33.2%	41.6%	38.4%	15	22	3	16.5%	21.8%	4.1%
Electric Utilities																
Centrenergy	CEEN	533	589	692	38	-69	7	7.1%	-11.7%	1.0%	18	-77	-4	3.4%	-13.1%	-0.6%
Donbasenergo	DOEN	224	249	276	23	8	9	10.2%	3.1%	3.3%	4	-3	2	1.7%	-1.1%	0.9%
Consumer																
MHP	MHPC	1556	2056	1950	450	376	414	28.9%	18.3%	21.2%	128	215	-150	8.2%	10.5%	-7.7%
Kernel (FY19, FY20, FY21E)	KER	3960	4107	4518	346	443	500	8.7%	10.8%	11.1%	189	118	136	4.8%	2.9%	3.0%
Astarta	AST	424	497	577	78	86	104	18.3%	17.4%	18.1%	-21	2	8	-4.9%	0.4%	1.4%
Avangardco	AVGR	127	135	120	15	17	19	11.8%	12.6%	15.8%	-5	2	3	-3.9%	1.5%	2.5%
Agroton	AGT	57	54	55	14	2	11	24.7%	4.1%	20.0%	14	5	4	23.7%	9.5%	7.3%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2647	3495	3623	420	550	524	239	280	292	187	185	168	44.6%	33.6%	32.0%

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									
UA4000200174			9.5%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.7%	9.7%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	9.7%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	10.5%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
UAH denominated Bonds									
UA4000204853			4.2%	3.2%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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