

Stock Market Update

Equity

Kyiv-listed equities were mostly higher last week, with local investors ignoring the sharp drop in the major European and global stock indexes. The UX index climbed by 1.2% to 1311 points, compared to the decline in the MSCI emerging market index by 2.9% amid the new wave of fear among investors regarding rising COVID-19 cases.

In individual blue-chip names, CentrEnergO (CEEN) gained 5.9% to UAH 5.40 while DonbasEnergO (DOEN) was unchanged at UAH 19 per share after the company posted a marginal net profit of UAH 1.4mn for 9M20. Motor Sich (MSICH), which has been frozen for trading since 2018 amid a legal dispute over its majority ownership, reported a net profit of UAH 926mn for 9M20, implying UAH 446 net profit per share.

Raiffeisen Bank Aval (BAVL) added 2.8% to 37.00 kopecks, reacting positively to the bank's report of UAH 1.05bn net profit for 3Q20 (EPS of 1.71 kopecks). For 9M20, Raiffeisen Aval's net profit reached UAH 3.12bn (EPS of 5.07 kopecks).

In London trading, Ferrexpo (FXPO) increased by 3.5% to GBp 190 while MHP (MHPC) lost 6.1% to USD 5.50.

On the Warsaw Stock Exchange, Ukrainian companies were broadly lower in line with the overall contraction on the main European bourses. Kernel (KER) fell 4.5% to PLN 38.80 despite operational results for the Jul-Sept quarter which were in line with expectations. Kernel reported a solid 31% YoY growth in its grain trading volumes to 2.1mn tonnes in the quarter. Astarta (AST) slid 14% to PLN 18.20 and Agroton (AGT) lost 7.1% to close at PLN 3.71.

The hryvnia was under pressure last week, losing 0.7% against the dollar to 28.52 UAH/USD. The National Bank intervened in the interbank market with sale of hard currencies to support the hryvnia, but it was not enough to overturn the devaluation sentiment among market players.

Highlights

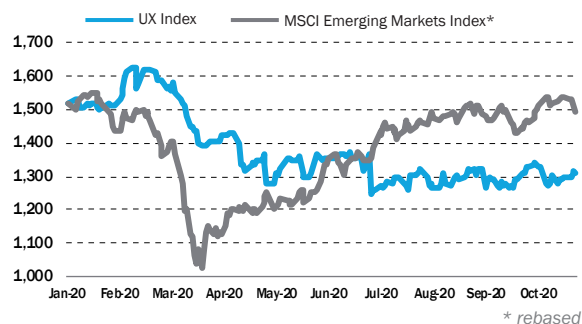
POLITICS AND ECONOMICS

- > Biden Holds Small but Steady Lead Over Trump Ahead of US Election
- > Zelenskiy Threatens to Disband Constitutional Court After Scandalous Ruling

STOCKS IN THE NEWS

- > Raiffeisen Aval Meets Expectations with 3Q EPS of 1.71 Kopecks

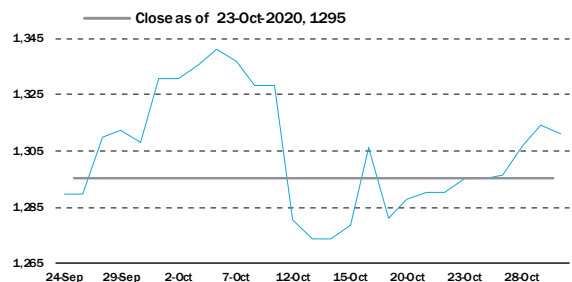
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1311	1.2%	-13.7%
RTS	1061	-8.3%	-31.5%
WIG20	1551	-5.0%	-27.8%
MSCI EM	1103	-2.9%	-1.0%
S&P 500	3269	-5.7%	1.2%

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	11.5%/9.5%	+0.6 p.p.	+0.2 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	28.52	0.7%	20.4%
EUR/UAH	33.21	-0.8%	25.7%

Source: Eavex Capital

Biden Holds Small but Steady Lead Over Trump Ahead of US Election

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

NEWS

One day before the US presidential election on Tuesday (Nov 3), Democratic challenger Joseph Biden holds a persistent, though not overwhelming, lead over incumbent Republican President Donald Trump in the key states which will determine the winner. Repeated public polling over the past two weeks indicates that Biden has a slim advantage of between 2 and 4 percentage points in five large and medium-sized states which had voted for Trump in 2016, all of which Trump needs to retain in order to be re-elected. Biden's largest polling lead of about 4-5 points is in the northeastern state of Pennsylvania, where both candidates are expected to be campaigning today. A recent professional-standard poll there put Biden ahead by a 50-45 margin, with 5 percent supporting minor candidates.

COMMENTARY

Like every other major capital around the world, Kyiv will be closely watching the outcome of the US vote. We don't believe in the scenarios of wide-scale post-election instability in the US driven by pro-Trump agitators, given the highly localized nature of the US election system and also given that Biden's victory is likely to come by a substantially wider margin than Trump's own very narrow win over Hillary Clinton in 2016. In order for Trump to win the election outright, public polling will have to be wrong by significantly more than it was in 2016 - by 5-6 points across the board, i.e. by 2 statistical standard deviations rather than the 1 standard deviation by which the 2016 polling missed the mark. We believe that a Biden presidency would have a generally positive effect on US-Ukraine relations, although no one should expect a return to the highly active US engagement in Kyiv of the 2013-2016 period (led by Biden himself as vice president), as Biden will have his hands full with domestic issues. On the other hand, a Trump re-election could be particularly dangerous for Ukraine given Trump's hostility to the country following the impeachment proceedings which he faced over his attempt to demand political favors from President Zelenskiy in exchange for USD 400 in military aid last year.

Zelenskiy Threatens to Disband Constitutional Court After Scandalous Ruling

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

NEWS

President Zelenskiy last week threatened to dissolve the entire composition of Ukraine's Constitutional Court (KCU) and replace it with new judges after the KCU ruled that key provisions of the country's anti-corruption infrastructure are illegal. At the request of 48 mostly pro-Russian MPs, the court ruled that the so-called "e-declarations" of the assets of public officials, one of the most important anti-corruption measures ever instituted in Ukraine, must be abolished. The e-declarations are one of the main requirements for Ukraine's continued receipt of IMF and other Western financial backing. On Monday (Nov 2), Zelenskiy submitted an emergency bill to Parliament that would declare the KCU's decision "null and void" and terminate the legal authority of all judges currently serving on the Court. The President urged the 250 MPs of his People's Servant party to pass the legislation immediately.

COMMENTARY

Following last week's municipal elections in which Zelenskiy's party was embarrassed nationwide and rising complaints about his handling of the COVID-19 situation, the KCU crisis has given the President a convenient adversary and a fresh cause that could be beneficial to his political fortunes. Indeed, Zelenskiy is correct that abolishing the anti-corruption infrastructure is a major threat to the national interest, and it is now reported that the KCU will next try to block the land market's opening next year, which is the keystone of Zelenskiy's economic reform agenda. It is far from clear that a weakened Zelenskiy commands enough support even within his own party to push through legislation against the KCU. However, Zelenskiy's goal is likely not to win the legislative battle, but rather to win a public relations war casting himself as the people's representative against Ukraine's unpopular and openly corrupt judiciary system. We see this crisis as a way for Zelenskiy to halt the slide in his support rating, at least in the near term.

Raiffeisen Aval Meets Expectations with 3Q EPS of 1.71 Kopecks

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

RAIFFEISEN BANK AVAL (BAVL UK)

Price: UAH 0.37 Market Cap: USD 798mn

	P/Assets	P/Book	P/E	Div. Yield
2019	0.23	1.5	4.3	17%
2020E	0.24	1.6	5.2	17%

NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, posted a net profit of UAH 1.05bn for 3Q20, implying EPS of 1.71 kopecks, which was 6.0% less than in the same period a year ago, according to the bank's financials published last week. Raiffeisen Aval's gross interest income decreased by 11.7% YoY while net interest income was unchanged at UAH 1.78bn in the period. Year-to-date through September, the bank reported a decline in net profit by 10.9% YoY to UAH 3.12bn, implying EPS of 5.07 kopecks.

On the balance sheet side, Raiffeisen Aval's loan portfolio decreased by 6.9% YtD to UAH 44.1bn, while its total assets rose substantially by 25% YtD to UAH 103bn (USD 3.65bn) as a result of increased cash on hand and rising lending to other banks.

RAIFFEISEN BANK AVAL FINANCIALS

UAH mn	3Q19	3Q20	YoY chg.	9M19	9M20	YoY chg.
Gross interest income	2511	2216	-11.7%	7281	7194	-1.2%
Net interest income	1782	1781	-0.1%	5314	5501	3.5%
Net income	1121	1054	-6.0%	3504	3121	-10.9%
	31 Dec 2019	30 Sept 2020	YTD chg			
Loan portfolio	47352	44084	-6.9%			
Equity	13016	11892	-8.6%			
Total assets	82786	103163	24.6%			

Source: Company data.

COMMENTARY

Raiffeisen Aval's 3Q earnings figure at 1.71 kopecks per share was largely in line with expectations. However, we were surprised to see that the bank's asset allocation imbalance continued to widen, with loans to corporate and retail clients accounting for only 43% of the total assets. Although Raiffeisen Aval's securities portfolio of UAH 6.8bn at the end of last quarter does not seem excessive, the bank's cash position of UAH 26bn, representing a full quarter of the assets, is evidence of a passive lending strategy on the market. Therefore, we assume that Raiffeisen Aval will be reporting lower interest income and profits in the next couple of quarters.

We reiterate our forecast for Raiffeisen Aval's full-year profit at UAH 4.2bn, implying a net profit of 6.83 kopecks per share. The Kyiv-listed BAVL stock had a positive reaction to the publication of the 3Q results, with quotes rising 2.8% to 37.00 kopecks.

With the projection of lower profit in upcoming quarters, we assign a HOLD recommendation for the BAVL stock with a possible share price decline to 33 kopecks on the horizon of the next 6 months (-11%). Nevertheless, the BAVL stock remains the highest dividend case in Ukraine's equity universe, and we do expect that the bank will distribute a 6.15 kopecks per share payout from its FY20 net profit. Taking into account the stock's current price of 37 kopecks, the implied dividend yield is an impressive 16.6%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	38.5	65.0	69%	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	5.5	11.5	109%	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	18.2	27.0	48%	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	3.79	12.0	217%	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	190	250	32%	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	109%	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	17.7	--	--	U/R	
JKX Oil & Gas	JKX LN	25.4	--	--	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	5.40	15.00	178%	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	0.370	0.33	-11%	HOLD	<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 paid 6.95 kopecks in dividend per share from FY19 net profit. The BAVL stock remains the highest dividend case in Ukraine's equity universe, and we do expect that the bank will distribute a 6.15 kopecks per share payout from its FY20 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	1311	1.2%	-13.7%								
Iron Ore Mining												
Ferrexpo	FXPO	190	3.5%	19.5%	1445	1619	24.0%	3.6	3.4	2.8	2.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.6	0.0%	6.1%	67	40	5.0%	2.2	7.2	1.1	2.8	0.2
Specialized Machinery												
Turboatom	TATM	7.9	0.0%	-25.3%	117	114	3.8%	9.6	5.6	2.3	2.0	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	393	391	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	129	0.4%	-10.8%	245	241	3.0%	neg	13.5	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	17.7	-12.7%	-18.9%	73	33	21.6%	7.3	9.2	1.5	1.8	0.6
JKX Oil	JKX	25.4	-0.4%	7.2%	56	165	50.4%	2.5	18.8	3.9	5.9	2.3
Power Utilities												
Centrenergy	CEEN	5.40	5.9%	-41.7%	70	68	21.7%	neg	-16	neg	10.3	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	14	14.2%	neg	6.6	1.9	1.6	0.1
Consumer												
MHP	MHPC	5.50	-6.1%	-39.6%	581	1799	34.1%	2.7	-3.9	4.8	4.4	0.9
Kernel	KER	38.50	-4.5%	-19.8%	777	1757	61.8%	6.6	5.7	4.0	3.5	0.4
Astarta	AST	18.20	-13.7%	13.8%	115	391	37.0%	61.4	14.7	4.5	3.8	0.7
Avangardco	AVGR	0.03	200%	-85.0%	2	333	22.5%	1.0	0.6	20	18	2.8
Agroton	AGT	3.79	-7.1%	2.4%	21	9	25.0%	4.0	5.2	4.0	0.8	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.370	2.8%	20.2%	798		1.8%	4.3	5.2	1.5	1.6	0.24

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	3368	420	550	487	239	280	269	187	185	155	44.6%	33.6%	31.7%

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			11.0%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000204556			11.5%	9.5%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			11.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	10.0%	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			4.0%	3.0%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovisky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: office@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