

**Stock Market Update**

**Equity**

Ukrainian equities listed in Kyiv and abroad were on the rise last week as traders were encouraged by Joseph Biden's victory in the US presidential race. Biden has been to Ukraine numerous times in his previous capacity as vice president, and there are expectations that his policy towards the country will be much more friendly compared to Kyiv-Washington relations under Donald Trump.

In fresh macro statistics, the Economics Ministry said that GDP dropped by 3.6% YoY in 3Q20 according to preliminary estimates, bringing the 9M20 drop to 5.5% YoY.

The UX index jumped by 5.2% for the week to close at 1379 points on Friday (Nov 6). Although UkrNafta reported huge net losses for 3Q20, the stock surprisingly advanced by 7.0% to UAH 138. We attribute this performance to buying momentum caused by the statement from NaftoGaz CEO Andriy Kobolev that NaftoGaz needs to consolidate its ownership in UkrNafta. Currently, NaftoGaz owns a 50%+1 share in UkrNafta and is holding talks with major private shareholders proposing to split up UkrNafta's assets into separate oil and gas divisions.

In other blue chips, CentrEnerg (CEEN) added a solid 9.3% to UAH 5.90, while quotes for Raiffeisen Bank Aval (BAVL) were flat at 37.00 kopecks. In second-tier stocks, Krukiv Wagon (KVBZ) surged by 15% to UAH 19.00 despite the company posting an unimpressive net profit of UAH 129mn for 9M20, implying EPS of UAH 1.12.

In London trading, Ferrexpo (FXPO) rose 5.3% to close at GBp 200 on the nose and MHP (MHPC) edged up by 0.7% to USD 5.54.

On the Warsaw Stock Exchange, Kernel (KER) climbed 2.2% to PLN 39.35 while Astarta (AST) saw a massive gain of 28% to PLN 23.30.

The hryvnia moved up by 1.3% to 28.15 UAH/USD amid the broad weakness of the US dollar against other currencies. The National Bank reported last week that its foreign currency reserves declined by USD 400mn to USD 26.1bn in October. It is estimated that the reserves currently cover 4.4-months of future imports, which indicates a comfortable level.

**Highlights**

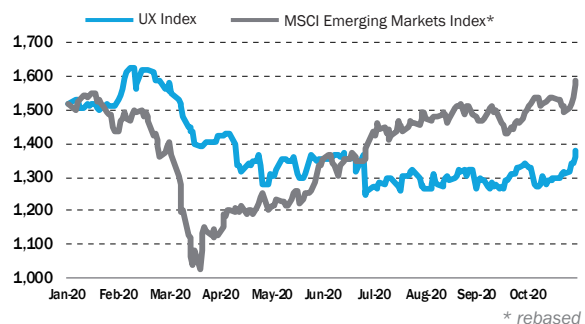
**POLITICS AND ECONOMICS**

- > Zelenskiy Quick to Congratulate Biden After Narrow Victory Over Trump

**STOCKS IN THE NEWS**

- > UkrNafta Posts 3Q Loss of UAH 495mn As Crude Price Remains Low

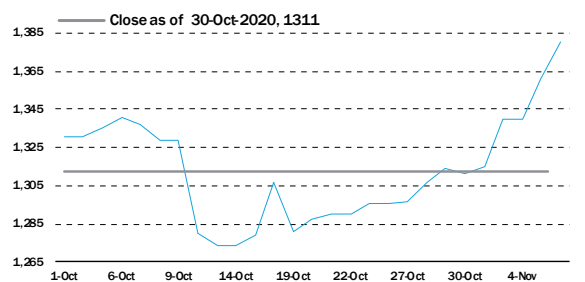
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
UX	1379	5.2%	-9.2%
RTS	1178	11.0%	-23.9%
WIG20	1697	9.4%	-21.0%
MSCI EM	1176	6.6%	5.5%
S&P 500	3509	7.3%	8.6%

**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%/9.7%	+0.1 p.p.	+0.3 p.p.
Ukraine-2025	6.3%	-1.0 p.p.	-0.3 p.p.
Ukraine-2028	7.6%	-0.8 p.p.	0.6 p.p.

**CURRENCY**

	Last, UAH	1W chg.	YTD
USD/UAH	28.15	-1.3%	18.8%
EUR/UAH	33.39	0.5%	26.4%

Source: Eavex Capital

## Zelenskiy Quick to Congratulate Biden After Narrow Victory Over Trump

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### NEWS

Democratic Party challenger and former Vice President Joseph Biden narrowly defeated Republican Party incumbent Donald Trump in the US presidential election last Tuesday (Nov 3), official state results show. All major US media organizations declared Biden the winner on Saturday (Nov 7) after a long counting process. In the US “electoral votes” points system, Biden won 4 key states by a margin of less than 1%, with the likely final electoral vote tally at 306 for Biden to 232 for Trump, and he also leads in the national popular vote by 75.4 million to 71.1 million. President Zelenskiy was quick to join key European allies of the US in congratulating Biden on Saturday after the media announcements, writing on his social media account, “Ukraine is optimistic about the future of the strategic partnership with the United States... our friendship becomes only stronger.”

### COMMENTARY

Trump over-performed pre-election polling by several percent, making the vote closer than expected, but Biden had enough of a cushion that he was ultimately able to emerge as the victor with little ambiguity. In our view, a Biden presidency will offer Ukraine, and indeed most of Europe, more predictable, friendly, and stable relations with Washington. Although US-Ukraine relations have avoided any major disasters during Trump’s tenure, we believe this is largely because of revelations at the start of Trump’s term about his pro-Russian sympathies which kept him on the defensive in regard to Russia and Ukraine for much of his time in office. This situation prevented Trump from lifting US sanctions and making any deals with the Kremlin that would have sold out Ukraine’s security and sovereignty. Indeed, Ukraine is fortunate that it was the Obama/Biden administration, and not the Trump administration, that was in power during the period and aftermath of the 2014 EuroMaidan pro-Western uprising, as the outcome could have been much different without unyielding US support. The coordinated economic sanctions imposed by the Obama administration and the European Union in the autumn of 2014 turned out to be quite successful in deterring further Russian military aggression against Ukraine. Meanwhile, the highlight of the Trump administration’s support for Kyiv was a largely symbolic deal to sell a batch of Javelin missiles to the country’s armed forces while maintaining some of the Obama-era Russia sanctions (reportedly against Trump’s wishes). We think the Zelenskiy administration should not expect any major initiatives from the Biden administration in its early days, as Biden will be preoccupied with the domestic issues on which he ran his successful campaign. However, we will not be surprised if Zelenskiy becomes one of the first foreign leaders invited to visit the White House in the Biden presidency.

## UkrNafta Posts 3Q Loss of UAH 495mn As Crude Price Remains Low

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### UKRNAFTA (UNAF UK)

Price: UAH 138 Market Cap: USD 266mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	2.4	0.2	neg	3.6	0.0%
2020E	7.0	0.2	neg	neg	0.0%

### NEWS

UkrNafta, Ukraine's largest oil producer, reported a net loss of UAH 495mn in 3Q20, according to financials published earlier this month. The company's net loss reached UAH 3.09bn for 9M20, while a year ago it had posted a net profit of UAH 994mn for the corresponding period. The company's revenue dropped by 18% YoY to UAH 6.09bn in 3Q20 and by 25% YoY to 16.1bn for 9M20. UkrNafta's EBITDA was negative at UAH -1.24bn in 3Q20 compared to EBITDA of UAH 134mn in 3Q19. For 9M20 UkrNafta's EBITDA is negative at UAH -3.23bn compared to EBITDA of UAH 994mn a year ago.

On the balance sheet side, UkrNafta reported no interest-bearing debt as of 30 Sept 2020, but acknowledged that its accrued tax debt remained at UAH 11.3bn (USD 400mn).

### UKRNAFTA FINANCIAL RESULTS

UAH mn	3Q19	3Q20	2Q20	QoQ	YoY	9M19	9M20	YOY
Net revenue	7,438	6,097	5,576	+9.3%	-18.0%	21,320	16,069	-24.6%
EBITDA	134	-1244	-1,088	-/-	+/-	994	-3228	+/-
EBITDA margin	1.8%	-20.4%	-19.5%	-0.9 p.p.	-22.2 p.p.	4.7%	-20.1%	-24.7 p.p.
Net Income	-382	-495	-1,743	-/-	-/-	994	-3,091	+/-
Net margin	-5.1%	-8.1%	-31.3%	+23.1 p.p.	-3.0 p.p.	4.7%	-19.2%	-23.9 p.p.

Source: Company data,

### COMMENTARY

UkrNafta's financial results for the last quarter were - once again - much worse than expected. The key consideration for the July-September period was that UkrNafta and its state-owned parent NaftoGaz were supposed to complete a large transaction regarding past debts which would have brought some UAH 30bn to UkrNafta on the top-line level. Not surprisingly, the deal remains on hold. Nevertheless, a slim probability remains that NaftoGaz will ultimately make the payment which it owes to UkrNafta for previously confiscated natural gas.

As for operational results for 3Q20, they were also disappointing. The company's daily average crude output decreased by 3.4% QoQ to 29,400 bbl, and daily average natural gas extraction fell by 5.3% QoQ to 3.01mn cubic meters. The company sold its oil at a price of USD 40/bbl at the auction held in September.

The UNAF stock is quoted near UAH 140, The latest earnings report had little immediate impact on the price but a news that the Parliament adopted the bill on UkrNafta's tax restructuring in the first reading helped UNAF stock to gain 7.0% last week.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	39.4	65.0	65%	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	108%	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	23.3	27.0	16%	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	4.00	12.0	200%	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>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	200	250	25%	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>
<b>Specialized Machinery</b>						
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>
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	138	270	96%	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	17.5	--	--	U/R	
JKX Oil & Gas	JKX LN	28.2	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	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>
CenterEnerg	CEEN	5.90	15.00	154%	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 CentrEnerg 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 CentrEnerg more attractive for privatization.</p>
<b>Banks</b>						
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	1379	5.2%	-9.2%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	200	5.3%	25.8%	1548	1722	24.0%	3.8	3.7	2.9	3.0	1.2
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	19.0	14.8%	21.8%	77	51	5.0%	2.5	8.4	1.3	3.6	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	7.9	0.0%	-25.3%	119	115	3.8%	9.7	5.7	2.3	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	398	396	24.0%	neg	13	21	3.9	1.1
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	138	7.0%	-4.6%	266	254	3.0%	neg	-4.8	3.6	-7.7	0.2
Enwell Energy (ex-Regal)	ENW	17.5	-1.1%	-19.8%	74	34	21.6%	7.4	9.2	1.5	1.8	0.6
JKX Oil	JKX	28.2	11.0%	19.0%	64	172	50.4%	2.9	21.2	4.1	6.1	2.4
<b>Power Utilities</b>												
Centrenergy	CEEN	5.90	9.3%	-36.3%	77	75	21.7%	neg	-18	neg	11.4	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.6	1.9	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	5.54	0.7%	-39.1%	585	1803	34.1%	2.7	-3.9	4.8	4.4	0.9
Kernel	KER	39.35	2.2%	-18.0%	827	1807	61.8%	7.0	6.1	4.1	3.6	0.4
Astarta	AST	23.30	28.0%	45.6%	154	430	37.0%	81.9	19.6	5.0	4.1	0.7
Avangardco	AVGR	0.03	0%	-85.0%	2	333	22.5%	1.0	0.6	20	18	2.8
Agroton	AGT	4.00	5.5%	8.1%	23	11	25.0%	4.4	5.7	4.9	1.0	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.370	0.0%	20.2%	808		1.8%	4.4	5.2	1.5	1.7	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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1274	1507	1430	503	586	570	39.5%	38.9%	39.9%	335	403	420	26.3%	26.7%	29.4%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
Ukrnafta	UNAF	1328	1097	1140	350	70	-33	26.4%	6.4%	-2.9%	237	-158	-55	17.8%	-14.4%	-4.8%
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		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
<b>UAH denominated Bonds</b>									
UA4000195176			11.0%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000204556			11.5%	9.7%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			11.5%	10.0%	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%	10.9%	n/a	n/a	S/A	26 Feb 2025	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.0%	3.0%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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