

**Stock Market Update**

**Equity**

Kyiv trading last week saw a mixed performance of the major listed stocks. The government's decision to tighten quarantine measures - but only on weekends - in the country had a neutral impact on the local market players. Meanwhile, President Zelenskiy and the head of his administration Andriy Yermak are both being treated for COVID themselves.

The UX index declined by 0.3% to 1375 points. CentrEnergO (CEEN) took the most points from the gauge, dropping by 4.2% to UAH 5.65. On the upside, UkrNafta (UNAF) added 1.4% to UAH 140 and Raiffeisen Bank Aval (BAVL) climbed by 2.7% to 38.00 kopecks. Sporadically-traded low-weight index member TurboAtom (TATM) grew by 6.3% to UAH 8.40 per share.

London-listed Ferrexpo (FXPO) edged down by 1.2% to GBp 198, once again facing the technical resistance line at GBp 200. MHP (MHPC) jumped 8.3% to USD 6.00 ahead of the company's 3Q20 earnings report which is due to be published on Nov 18.

On the Warsaw Stock Exchange, top liquid name Kernel (KER) advanced by 4.2% to PLN 41.00 after the company proposed to increase its annual dividend from 25 US cents per share to 42 US cents per share. The shareholders meeting on the issue will be held on Dec 10. Sugar producer Astarta (AST) gained another 4.3% to PLN 24.30 on top of its surge of 28% over preceding week. The stock received a boost from the company's 3Q20 financial report; Astarta's EBITDA was EUR 15mn in the period, bringing 9M20 EBITDA to EUR 82mn (+53% YoY).

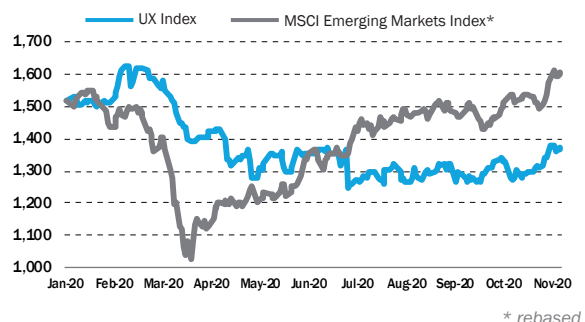
The hryvnia had a quiet trading week, inching up by 0.1% to close at 28.12 UAH/USD on Friday (Nov 9).

**Highlights**

**POLITICS AND ECONOMICS**

- > Zelenskiy's "Weekend Quarantine" Facing Widespread Local Opposition
- > Ukraine Headline Inflation Edges Up to 2.6% in October from 2.3% in September

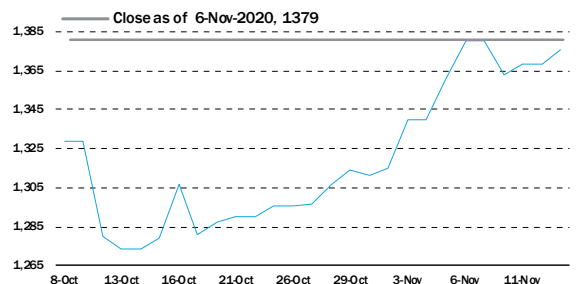
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
UX	1375	-0.3%	-9.5%
RTS	1264	7.3%	-18.4%
WIG20	1788	5.4%	-16.8%
MSCI EM	1188	1.0%	6.6%
S&P 500	3585	2.2%	11.0%

**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%/10.1%	+0.1 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	28.12	-0.1%	18.7%
EUR/UAH	33.30	-0.3%	26.0%

Source: Eavex Capital

## Zelenskiy's "Weekend Quarantine" Facing Widespread Local Opposition

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### NEWS

The Ukrainian government's re-imposition of full quarantine restrictions against Ukrainian businesses on weekend days is being defied by local governments in many provincial cities, the Kyiv Post online newspaper reported on Sunday (Nov 15). Mayors in the major cities of Lviv and Dnipro, as well as mid-sized provincial capitals Cherkasy, Ternopil, and Chernihiv, declined to enforce the measures and called for them to be rolled back. Meanwhile, it has been reported that President Zelenskiy himself has contracted the COVID, although he does not appear to be ill and has not stopped working.

### COMMENTARY

The new quarantine represents the third wave of restrictions imposed since the start of the COVID epidemic in March; each successive wave is eliciting greater opposition from the Ukrainian population, which at this point is clearly more worried about the stoppage of economic activity than about the disease itself. It is somewhat ironic to note that the panic in society over the COVID was far greater in March/April, when Ukraine's COVID caseload was in the range of a few dozen per day, than it is now with confirmed new infections running at about 10,000 per day. These numbers still put Ukraine somewhat ahead of most of Europe, where COVID cases per capita are between 2x and 3x higher. We think that Zelenskiy's threat to re-impose a full-time quarantine in case of non-compliance with the weekend restrictions is a bluff, as the government would face a nationwide revolt which it would be unable to contain. Although the weekend quarantine is set only through the end of the current month, we assume that the government's plan is to maintain it through most of the winter. It remains to be seen how much higher Ukraine's COVID case numbers might climb during the season when citizens are spending the vast majority of their time indoors.

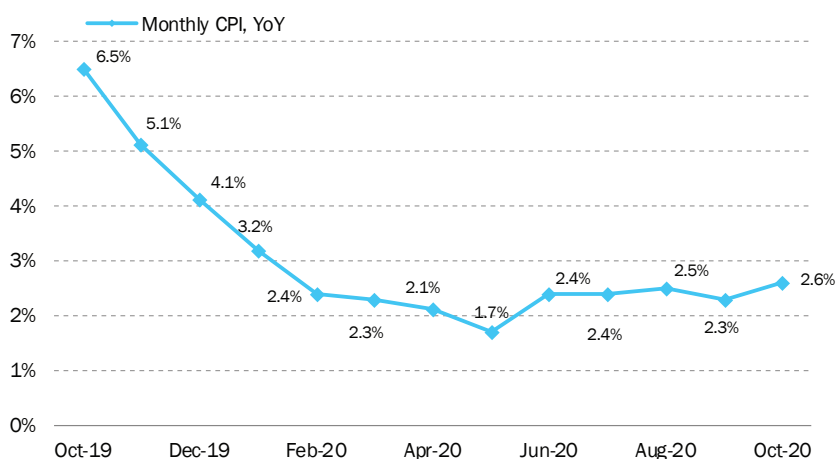
**Ukraine Headline Inflation Edges Up to 2.6% in October from 2.3% in September**

by Dmitry Churin  
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**NEWS**

Ukraine’s rolling 12-month “headline” consumer inflation edged up to 2.6% in October from 2.3% in September, according to State Statistics Committee data published last week. In October alone there was inflation of 1.0% MoM on the back of 1.1% MoM increase in the aggregate food price index.

**UKRAINE'S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

It appears to us - not for the first time - that the government’s officially reported consumer inflation is underestimating the true inflation on the ground in Ukraine’s economy, and does not reflect the price increases that Ukrainians are seeing in grocery shops. We expect November to see higher inflation, as the global price for wheat rose 6.2% MoM to USD 205 per tonne in October. Prices for other soft commodities were also on the rise, a trend likely to lead to higher meat prices as well. Meanwhile, UkrStat reported that meat prices climbed by 0.8% MoM, and bread prices increased by 1.5% MoM in October.

On the currency front, the hryvnia was more or less stable in October, with the official exchange rate against the dollar moving by a moderate 0.5% from 28.31 UAH/USD to 28.44 UAH/USD over the period.

We continue to stick with our forecast that consumer inflation in Ukraine will accelerate in the coming months. Although the official CPI figure for 2020 is unlikely to exceed 5%, we do now expect that the next year’s inflation could easily reach into double digits.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	41.0	65.0	59%	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	6.0	11.5	92%	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	24.3	27.0	11%	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>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	198	250	26%	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	140	270	93%	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	22.0	--	--	U/R	
JKX Oil & Gas	JKX LN	34.7	--	--	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	5.65	15.00	165%	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	0.380	0.33	-13%	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	1375	-0.3%	-9.5%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	198	-1.2%	24.3%	1530	1704	24.0%	3.8	3.6	2.9	3.0	1.2
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	19.0	0.0%	21.8%	77	51	5.0%	2.5	8.4	1.3	3.6	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	8.4	6.3%	-20.6%	126	123	3.8%	10.3	6.0	2.5	2.2	1.1
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	140	1.4%	-3.2%	270	258	3.0%	neg	-4.9	3.7	-7.8	0.2
Enwell Energy (ex-Regal)	ENW	22.0	25.5%	0.7%	93	53	21.6%	9.3	11.6	2.4	2.8	1.0
JKX Oil	JKX	34.7	22.9%	46.2%	78	187	50.4%	3.5	26.1	4.4	6.7	2.6
<b>Power Utilities</b>												
Centrenergy	CEEN	5.65	-4.2%	-39.0%	74	72	21.7%	neg	-17	neg	10.9	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.7	1.9	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	6.00	8.3%	-34.1%	634	1852	34.1%	2.9	-4.2	4.9	4.5	0.9
Kernel	KER	41.00	4.2%	-14.6%	862	1842	61.8%	7.3	6.4	4.2	3.7	0.4
Astarta	AST	24.30	4.3%	51.9%	160	335	37.0%	85.4	19.4	3.9	3.1	0.6
Avangardco	AVGR	0.05	67%	-75.0%	3	335	22.5%	1.6	1.1	20	18	2.8
Agroton	AGT	4.08	2.0%	10.3%	23	12	25.0%	4.5	5.8	5.1	1.0	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.380	2.7%	23.5%	831		1.8%	4.5	5.4	1.5	1.7	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		
		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	608	78	86	110	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%	10.1%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			11.5%	10.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.9%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	11.0%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	11.7%	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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