

Stock Market Update

Equity

The UX index advanced by 3.1% to 1417 points last week as local traders found some optimism from President Zelenskiy's re-engagement with the IMF following his constructive phone conversation with IMF Managing Director Kristalina Georgieva. Zelenskiy said Ukraine has not stopped fulfilling its obligations under the current stand-by loan program, singling out reforms of the customs and tax bodies within the Finance Ministry. He said the National Bank is actively working to reduce the share of non-performing loans in the banking system.

Kyiv-listed blue-chips all finished in positive territory. CentrEnerg (CEEN) rebounded by 8.8% to UAH 6.15 after its correction seen a week earlier. Raiffeisen Bank Aval (BAVL) rose 3.9% to 39.50 kopecks and DonbasEnerg (DOEN) surged by 14% to UAH 21.75. A separate growth driver was for UkrNafta (UNAF) as the offer side of quotes for UNAF stock jumped by 15% to UAH 160 after the Parliament adopted a special bill aiming at resolving UkrNafta's huge tax debt problem.

In London trading, MHP (MHPC) jumped 8.3% to USD 6.50 per share after the company's 3Q20 earnings report brought no unexpected negative surprises. Iron ore producer Ferrexpo (FXPO) edged down by 0.9% to GBP 196.

Warsaw-listed Ukrainian agro stocks enjoyed some upward momentum after reports that the country's overall grain harvest reached 60.3mn tonnes from 14.6mn hectares, which is 95% of the plan. Kernel (KER) rose 6.8% to PLN 43.80, Astarta (AST) added 2.9% to PLN 25.00, and low-liquidity Agroton (AGT) jumped by 16% to PLN 4.73.

On the currency market, the hryvnia was again little-changed, edging lower by 0.7% to 28.32 UAH/USD.

Highlights

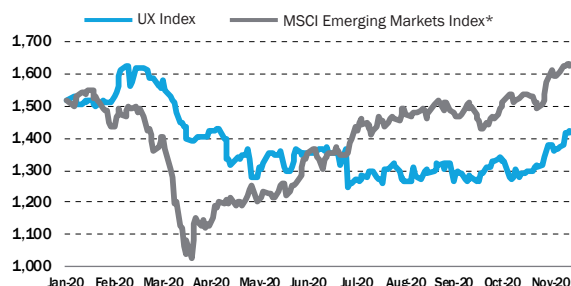
POLITICS AND ECONOMICS

- Poroshenko Falls Short in Bid to Oust Sadoviy in Lviv

STOCKS IN THE NEWS

- Parliament Passes Massive UAH 30bn Tax Relief Scheme for UkrNafta
- MHP's Net Loss Amounts USD 47mn in 3Q20 Due to USD 61mn FX Loss

STOCK MARKET PERFORMANCE

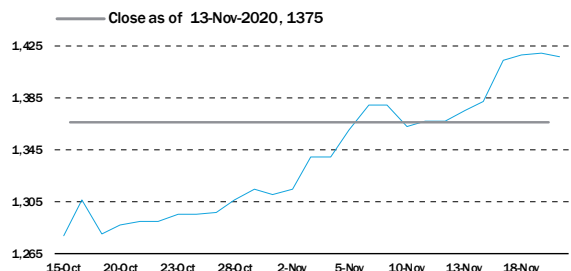


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1417	3.1%	-6.7%
RTS	1279	1.2%	-17.4%
WIG20	1843	3.1%	-14.2%
MSCI EM	1209	1.8%	8.5%
S&P 500	3557	-0.8%	10.1%

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	11.0%/10.4%	+0.2 p.p.	+0.6 p.p.
Ukraine-2025	5.9%	-0.1 p.p.	-0.7 p.p.
Ukraine-2028	7.1%	-0.2 p.p.	0.1 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.32	0.7%	19.5%
EUR/UAH	33.61	0.9%	27.2%

Source: Eavex Capital

Poroshenko Falls Short in Bid to Oust Sadoviy in Lviv

by Will Ritter
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NEWS

Longtime Lviv mayor Andriy Sadoviy apparently won re-election on Sunday (Nov 22), defeating his challenger Oleg Syniutka by a comfortable 62%-38% margin, according to a comprehensive exit poll that sampled 9000 respondents. Synotiuk, an MP in the European Solidarity party, is a close ally of former president Petro Poroshenko, having served under Poroshenko as governor of Lviv province (an appointed position) from 2014 to 2019. Sadoviy, 52, who led the Samopomich party in the previous Parliament, has been mayor of Lviv for nearly 15 years. The first round of voting on Oct 25 had been substantially closer, with Sadoviy leading Syniutka by 40%-31%. Also re-elected on Sunday were Dnipro incumbent mayor Boris Filatov and Cherkasy incumbent Anatoliy Bondarenko, who ran on a platform of opposition to the national government's COVID lockdowns.

COMMENTARY

Sadoviy, despite having lost his once-bright luster as a pro-Western reformer after his Samopomich party disintegrated into an embarrassment in the previous Parliament, was able to exploit his well-funded political-business network in Lviv to fend off the most serious challenge faced by any of the incumbent mayors in Ukraine's largest cities this cycle. Amid the Samopomich debacle in 2018 that saw the party taken over by hard-line anti-IMF nationalists, Sadoviy doubled down on his national ambitions, attempting to run for the presidency, but he received almost no support outside of his home province and eventually withdrew to back Anatoliy Grytsenko, another Poroshenko opponent. Poroshenko has been hoping to use Lviv to spearhead his political comeback, having focused his attention and media resources on the mayor's race after leading European Solidarity to an impressive first-place finish in the Lviv municipal council elections last month; the city is one of Ukraine's four major provincial capitals, along with Kharkiv, Odessa and Dnipro, and is the only one of the group which is majority Ukrainian-speaking. This race, along with those in the other big cities, shows how difficult it is to defeat entrenched incumbents in Ukraine, even amid a relative lack of popularity and suspicions of corruption.

Parliament Passes Massive UAH 30bn Tax Relief Scheme for UkrNafta

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 160 Market Cap: USD 306mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	2.8	0.3	neg	4.2	0.0%
2020E	1.0	0.2	1.3	1.0	n/a

NEWS

Ukraine's Parliament adopted a bill in the final reading that aims to rescue UkrNafta from its accrued UAH 30bn tax debt. The bill received 283 MP votes for the bill out of 226 minimum required, led by President Zelenskiy's People's Servant faction. The scheme for the transaction has following stages: the Finance Ministry will pay UAH 32.2bn to 100% state-owned natural gas operator NaftoGas as compensation for cheap energy supplies to low-income households; then NaftoGaz will pay a total of UAH 30.4bn (USD 1.1bn) to UkrNafta for natural gas which was confiscated from the company in order to finance the de-facto energy subsidies to households, and as an advance payment for future gas deliveries; and finally, UkrNafta will pay to the national budget its production tax debt with penalties. UkrNafta accrued the massive debt during 2014 and 2015 when controlling minority shareholder Privat Group refused to pay any taxes to the Ukrainian government on its earnings.

COMMENTARY

This massive scheme is mainly an exercise in moving the equivalent of a billion dollars from one pocket to another of the Ukrainian government, as the Finance Ministry will outlay UAH 32bn to state-owned Naftogaz, which will then pay most of it to UkrNafta, which will pay most of that back to the State Fiscal Service in taxes. The bill, which can be viewed as a victory for Privat Group and its beneficiary Igor Kolomoyskiy, is not only a resolution of UkrNafta's tax debt, but also an initial step toward splitting the company into separate natural gas and oil divisions. The main idea is not merely to split UkrNafta into business segments, but also to fundamentally re-distribute the ownership of the company and thus to finally settle the decades-long non-transparent conflict over who actually owns this lucrative asset. Kolomoyskiy has historically had de-facto control over the company's day-to-day operations despite owning a smaller share than Naftogaz's 50%+1 stake. We think Kolomoyskiy is aiming to maintain control of the oil side of the business, where Privat has historically been more active.

The deadline for the tax scheme settlement was set for Dec 31. However, taking into account the difficulties with the rising national budget deficit, which could top 8% of GDP this year, some risks for the highest-level approval of the transaction still exist, in our view.

Quotes on the offer side for the UkrNafta stock on the Ukrainian Exchange surged by 15% to UAH 160 immediately after the bill was adopted.

Eavex Capital has a BUY recommendation on the UNAF stock with a target price of UAH 270, implying an upside of 70%.

MHP's Net Loss Amounts USD 47mn in 3Q20 Due to USD 61mn FX Loss

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 6.50 Market Cap: USD 687mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.6	0.9	3.2	4.9	4.3%
2020E	0.6	0.9	neg	4.5	4.3%

NEWS

London-listed, central-Ukraine-based MHP (MHPC), Ukraine's largest poultry producer, posted a net loss of USD 47mn in 3Q20 due to a USD 61mn foreign exchange non-cash loss, according to the company's earnings report published on Nov 18. The company had posted a net profit of USD 104mn a year earlier in 3Q19. MHP's revenue decreased by 2% YoY to USD 547mn in the period and EBITDA declined by 4% YoY to USD 106mn. Year-to-date through September, the company reported revenue of USD 1.41bn (-6% YoY), EBITDA of USD 332mn (-7% YoY), and a net loss of USD 109mn compared to a net profit of USD 276mn a year ago.

On the balance sheet side, MHP's total debt was USD 1.47bn as of 30 Sept 2020. The weighted average interest rate was reported at approximately 7%. The Net Debt/EBITDA ratio was 3.3x as of 30 Sept 2020, up from 3.0x at the start of the year.

MHP FINANCIALS

USD mn	3Q19	3Q20	chg.	9M19	9M20	chg.
Net revenue	560	547	-2%	1,505	1,414	-6%
EBITDA	109	106	-4%	357	332	-7%
margin	19.7%	19.4%	-0.3 p.p.	23.7%	23.5%	-0.2 p.p.
Net Income	104	-47	-/+	276	-109	-/+
net margin	18.8%	-8.6%	-27.4 p.p.	18.3%	-7.7%	-26.0 p.p.

Source: Company data.

COMMENTARY

MHP's 3Q financial result was in line with our expectation. Our full-year forecast for MHP's net loss remains unchanged at around USD 150mn. MHP's business model is highly sensitive to the hryvnia devaluation; the UAH/USD exchange rate growth from 23.70 to 28.30 UAH/USD from January to September has led to a forex non-cash loss of USD 191mn. Also the hryvnia devaluation hurts MHP's sales on the domestic market when translating them into USD revenue. The company has worked hard to hedge this risk by building its export revenue, which was at USD 761mn in 9M20, accounting for 54% of total revenue. However, export revenues were also hit by weak pricing this year, with sales volume rising 3% YoY in 9M20 but revenue falling by 12%. The company said that its achieved average poultry meat price dropped by 9% YoY in USD terms to USD 1.34 per kg (excluding VAT) in 9M20.

Although MHP's business has not suffered much from the COVID-19 crisis, the MHPC stock has tumbled by 28% since the start of the year as investors fear that the company's quite large debt burden could become unsustainable at some point.

The MHPC stock has a current listing of USD 6.50 per share, and a 52-week range of USD 5.14 to USD 9.96; Eavex Capital has a target price of USD 11.50 for the stock.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	43.8	65.0	48%	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	6.5	11.5	77%	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	25.0	27.0	8%	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	4.73	12.0	154%	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	196	250	28%	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	160	270	69%	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	22.4	--	--	U/R	
JKX Oil & Gas	JKX LN	31.4	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	21.8	--	--	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	6.15	15.00	144%	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	0.395	0.33	-16%	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	1417	3.1%	-6.7%								
Iron Ore Mining												
Ferrexpo	FXPO	196	-0.9%	23.3%	1517	1691	24.0%	3.8	3.6	2.9	3.0	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	-5.3%	15.4%	73	46	5.0%	2.4	7.9	1.2	3.3	0.2
Specialized Machinery												
Turboatom	TATM	8.4	0.0%	-20.6%	125	122	3.8%	10.3	6.0	2.5	2.2	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	395	394	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	160	14.3%	10.7%	306	295	3.0%	neg	1.3	4.2	1.0	0.2
Enwell Energy (ex-Regal)	ENW	22.4	1.6%	2.3%	94	54	21.6%	9.4	11.8	2.5	2.9	1.0
JKX Oil	JKX	31.4	-9.5%	32.3%	71	179	50.4%	3.2	23.6	4.2	6.4	2.5
Power Utilities												
Centrenergo	CEEN	6.15	8.8%	-33.6%	80	78	21.7%	neg	-18	neg	11.8	0.1
Donbasenergo	DOEN	21.75	14.5%	-14.0%	18	17	14.2%	neg	7.6	2.2	1.8	0.1
Consumer												
MHP	MHPC	6.50	8.3%	-28.6%	687	1843	34.1%	3.2	-4.6	4.9	4.5	0.9
Kernel	KER	43.80	6.8%	-8.8%	926	1906	61.8%	7.8	6.8	4.3	3.8	0.4
Astarta	AST	25.00	2.9%	56.3%	166	341	37.0%	88.4	20.1	3.9	3.1	0.6
Avangardco	AVGR	0.05	0%	-75.0%	3	335	22.5%	1.6	1.1	20	18	2.8
Agroton	AGT	4.73	15.9%	27.8%	27	15	25.0%	5.2	6.8	6.9	1.4	0.3
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.395	3.9%	28.4%	858		1.8%	4.6	5.5	1.6	1.8	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
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	1875	350	70	290	26.4%	6.4%	15.5%	237	-158	232	17.8%	-14.4%	12.4%
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																
Centrenerg	CEEN	533	589	692	38	-69	7	7.1%	-11.7%	1.0%	18	-77	-4	3.4%	-13.1%	-0.6%
Donbasenerg	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	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%
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			11.0%	10.4%	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%	11.2%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	11.5%	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

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