

Stock Market Update

Equity

Ukrainian domestically-listed equities ended firmly higher for the week, extending their local upward trend that began in mid-October. The UX index gained 3.6%, reaching 1468 points on Friday. Raiffeisen Bank Aval (BAVL) rose 3.8% to 41.00 kopecks. We are somewhat surprised by the stock's solid growth performance, as the bank's profitability is under pressure amid declining interest margins in the country's banking system. Moreover, we suspect that Raiffeisen Aval has a passive credit policy and is thus losing its market share to more aggressive players, especially in the retail segment.

In other UX basket components, TurboAtom (TATM) advanced by 3.2% to UAH 8.67 and CentrErgo (CEEN) added 1.6% to UAH 6.25 per share. In contrast, DonbasErgo (DOEN) fell 8.0% to UAH 20.00 after the surge of 14% seen over the preceding week. The offer side of quotes for UkrNafta (UNAF) remained at UAH 160 per share as no new information appeared regarding the execution of the parliament's approved solution for the company's accrued tax debt.

On the London Stock Exchange, JKC Oil&Gas (JKX) gained 3.2% to GBP 32.50 and iron ore miner Ferrexpo (FXPO) once again climbed above the GBP 200 line, advancing by 6.0% to GBP 208.

Warsaw-listed Kernel (KER) enjoyed a solid 15% rise to PLN 50.50 after the company reported an enormous quarterly profit of USD 204mn (+3.4x YoY) for the Jul-Sept period. Low-liquidity Agroton (AGT) increased by 6.6% to PLN 5.04.

The hryvnia faced some speculative attacks last week, falling 0.8% to 28.54 UAH/USD. Currency market players fear that the National Bank could start a massive refinancing of state-owned banks in order to provide indirect support to the national budget.

Highlights

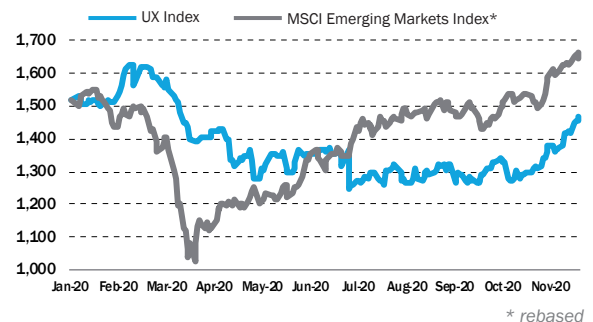
POLITICS AND ECONOMICS

- > New National COVID Lockdown in Ukraine Increasingly Likely
- > Ukraine's Industrial Output Drops by 5.0% YoY in October, 6.8% YoY for 10M20

STOCKS IN THE NEWS

- > Kernel Posts Massive Profit of USD 204mn for Jul-Sept Quarter

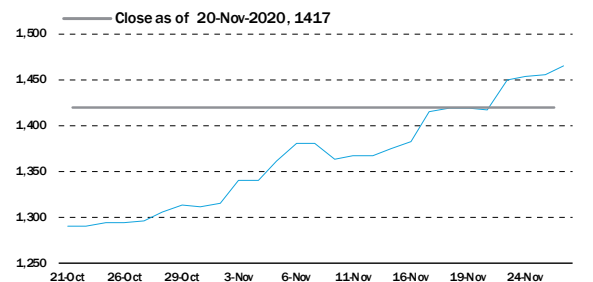
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1468	3.6%	-3.3%
RTS	1302	1.8%	-15.9%
WIG20	1852	0.5%	-13.8%
MSCI EM	1229	1.7%	10.3%
S&P 500	3638	2.3%	12.6%

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%/10.5%	+0.3 p.p.	+0.9 p.p.
Ukraine-2025	5.4%	-0.5 p.p.	-1.2 p.p.
Ukraine-2028	6.8%	-0.3 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.54	0.8%	20.5%
EUR/UAH	34.08	1.4%	29.0%

Source: Eavex Capital

New National COVID Lockdown in Ukraine Increasingly Likely

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

NEWS

The Ukrainian government is making plans to introduce another full national lockdown entailing the closure of public transport and most public businesses, head of the pro-presidential People's Servant faction David Arakhamia said on Sunday (Nov 29). Arakhamia, one of President Zelenskiy's top allies in Parliament, placed the probability of what he called an "intelligent lockdown" at 90 percent, and he predicted that it would go into effect at the start of the New Year holiday period on Dec 27. Incidences of the COVID-19 virus have risen sharply in Ukraine during November, with new cases per day reaching an average of nearly 15,000, for the first time putting Ukraine on a par with the outbreaks seen in Western European nations.

COMMENTARY

Despite the seriousness of the COVID situation, locking the country down again remains a move that will face significant popular resistance, which explains why the Zelenskiy administration seems intent on allowing businesses to remain open during most of December, traditionally a busy month of commerce in the country. This approach would also keep schools in session until the winter break, an important priority for working parents. However, Interior Minister Arseniy Avakov recently spoke publicly in favor of an immediate lockdown, implying that a more draconian option is also being pushed within some quarters of the government. Although Avakov wields great power as the head of the national police, he is a deeply unpopular figure in society due to his authoritarian inclinations, and we believe that Zelenskiy understands the political dynamics of the situation; a lockdown that begins in late December and runs during the extended January holiday period will cause less economic and social disruption than one which is put into effect right away and could well last for two months or even longer amid the peak of the country's indoor weather season.

Ukraine's Industrial Output Drops by 5.0% YoY in October, 6.8% YoY for 10M20

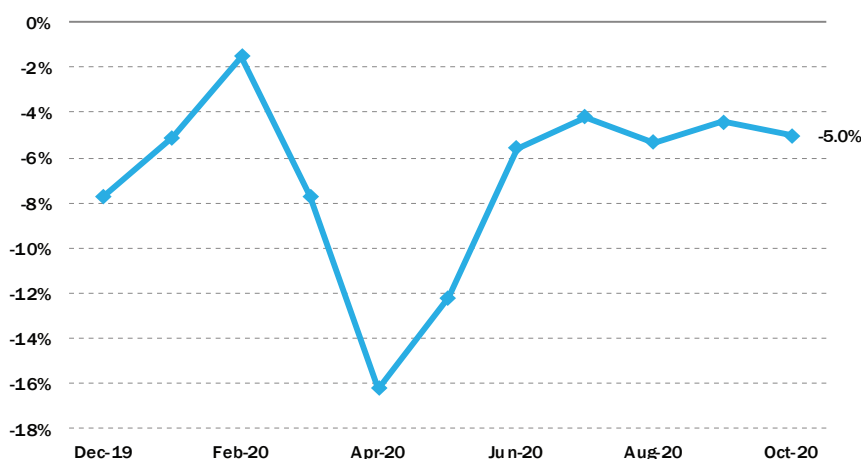
by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine's nationwide industrial output showed a year-over-year decline of 5.0% YoY in October, after the fall of 4.4% YoY seen in September, the State Statistics Committee (UkrStat) reported on Nov 23. The month-on-month change in October (unadjusted for the different number of days) was a rise of 5.8%. In the manufacturing sector, the aggregate production fall was 6.6% YoY in October. In the utility sector the output decrease was 1.8% YoY, and 2.5% YoY in the extraction industry. Year-to-date through October, UkrStat's industrial index is down by 6.8% YoY. In other industrial sectors, food & drink production dropped by 7.2% YoY in October while for 10M20 there was a much smaller decline of 1.8% YoY.

In other macroeconomic statistics for October, retail sales surged by 15.2% YoY and by 4.3% compared to September. Year-to-date, the retail sales index is up by 7.6% YoY. In the agro sector, aggregate output in January-October dropped by 14.2% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

Although the pace of the industrial output contraction due to the ongoing COVID disruption was in line with expectations for October, we are somewhat disappointed that the extraction sector did not show any growth. It is especially unclear why iron ore extraction declined by 1.5% YoY amid strong demand and pricing for iron ore on the main export markets. Meanwhile, in the manufacturing sphere, production of electronic appliances plunged by 45% YoY in October in contrast to chemical industry output growth by 1.9% YoY in the period. The enormous rise in retail sales of 15% YoY last month looks likely to cool off a bit given the resurgence of the COVID situation in November; as we have stated previously, the retail sales sector's strong performance during 2020 in spite of the COVID indicates that UkrStat's retail figures are probably driven by upper-income Ukrainians who have been little-affected by the downturn.

Currently we see that Ukrainian economy has the fundamental strength to withstand the global trade downturn caused by the COVID epidemic. However, the country's small business sector has no support from the state, and it just a matter of time until the service sector starts to show additional ill effects.

Kernel Posts Massive Profit of USD 204mn for Jul-Sept Quarter

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

KERNEL (KER PW)

Price: PLN 50.50 Market Cap: USD 1,103mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY20	0.7	0.5	9.4	4.8	3.1%
FY21E	0.6	0.5	3.2	3.4	3.1%

NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel said that its net profit jumped by 3.4x YoY to USD 204mn in the Jul-Sept quarter (1Q21; the company's financial year runs from July to June), according to results published on Nov 27. On the top line, Kernel's revenue grew by 11% to USD 940mn amid higher soft commodities prices in the reported period. The company's EBITDA surged by 2.7x YoY to USD 290mn and the EBITDA margin increased from 12.6% a year ago to 30.9% in the reported period.

On the balance sheet side, Kernel's net debt increased by 4% to USD 1.02bn from the previous reporting quarter, implying a comfortable Net Debt/EBITDA ratio of 1.6x as of 30 Sept 2020. Taking into account Kernel's marketable inventories, the company claims an "adjusted" Net Debt/EBITDA ratio of 0.8x at the end of reporting quarter. The company's total assets grew by 10% QoQ to USD 3.5bn.

KERNEL FINANCIAL RESULTS

USD mn	1Q20FY	1Q21FY	YoY
Net revenue	846	940	+11%
EBITDA	107	290	+172%
EBITDA margin	12.6%	30.9%	+18.3 p.p.
Net Income	59	204	+243%
Net margin	7.0%	21.7%	+14.7 p.p.

Source: Company data.

COMMENTARY

Kernel's net profit for the Jul-Sept quarter was absolutely massive and implies earnings per share of PLN 9.11, translating at the current PLN/USD exchange rate. To put this profit figure in perspective, it nominally implies that Kernel is currently trading at a P/E multiple below 1.5x, although it is obvious that the company will not continue to report USD 200mn in profit during each of the next few quarters.

Kernel said that its farming business segment was the core contributor to the higher profit, delivering USD 161mn (+2.8x YoY) on the EBITDA level in the Jul-Sept period. Other segments were also in a good shape, with agro trading bringing in EBITDA of USD 111mn (+3.1x YoY) and oilseeds processing adding EBITDA of USD 31mn (+39% YoY) in the period.

In a separate statement, Kernel highlighted that Standard&Poors Rating agency upgraded the company's credit rating to "B+", one notch above the Ukrainian sovereign.

The strong 1Q21 earnings report prompts us to revise our full-year 2021 forecast for Kernel's profitability. Previously we conservatively forecasted that the company's net profit would rise by 15% YoY to USD 136mn, while we now believe that Kernel could generate USD 350mn (+3.0x YoY) in net profit in FY21. The new forecast implies that Kernel at the current listing price trades at a forward-looking P/E of 3.2x. Eavex Capital has a BUY recommendation for the KER stock with a target price of PLN 65.00.

Kernel's shares demonstrated an outstanding performance in the two weeks ahead of the earnings report, advancing by 25% from PLN 41.00 to PLN 51.60. The stock gained 6.4% on Friday immediately after opening, with the intra-day high registered at PLN 54.00 per share.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	50.5	65.0	29%	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 net profit for the Jul-Sept quarter was absolutely massive and implies earnings per share of PLN 9.11, translating at the current PLN/USD exchange rate.</p> <p>The strong 1Q21 earnings report prompts us to revise our full-year 2021 forecast for Kernel's profitability. Previously we conservatively forecasted that the company's net profit would rise by 15% YoY to USD 136mn, while we now believe that Kernel could generate USD 350mn (+3.0x YoY) in net profit in FY21. Eavex Capital has a BUY recommendation for the KER stock with a target price of PLN 65.00.</p>
MHP	MHPC LI	6.2	11.5	85%	BUY	<p>MHP's reported bottom line for 2Q20 was much better than our forecast of a net loss of USD 190mn for the period after the loss of USD 174mn seen in 1Q20. Nevertheless, it is too optimistic to hope that MHP could be profitable for the full year, as the hryvnia devaluation causes large foreign currency translation losses. We expect that MHP's net loss will be around USD 150mn for FY20. On the balance sheet side, MHP's total debt was USD 1.48bn as of 30 Jun 2020, with long-term debt representing 98% of the amount. Management said the weighted average interest rate on the debt is around 7%. This puts MHP's debt-to-EBITDA ratio at 3.7x as of 30 Jun 2020 compared to 2.9x as of 30 Jun 2019. The London-listed MHPC stock remained under pressure as the company's worsening debt metric represents a threat to shareholder value.</p>
Astarta	AST PW	24.7	27.0	9%	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	5.04	12.0	138%	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	208	250	20%	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	22.0	--	--	U/R	
JKX Oil & Gas	JKX LN	32.5	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	20.0	--	--	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	6.25	15.00	140%	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 6 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	0.410	0.33	-20%	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	1468	3.6%	-3.3%								
Iron Ore Mining												
Ferrexpo	FXPO	208	6.0%	30.7%	1627	1801	24.0%	4.0	3.9	3.1	3.2	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	0.0%	15.4%	72	46	5.0%	2.4	7.9	1.2	3.2	0.2
Specialized Machinery												
Turboatom	TATM	8.7	3.2%	-18.1%	128	125	3.8%	10.5	6.1	2.5	2.3	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	392	391	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	160	0.0%	10.7%	304	292	3.0%	neg	1.3	4.2	1.0	0.2
Enwell Energy (ex-Regal)	ENW	22.0	-1.6%	0.7%	94	54	21.6%	9.4	11.7	2.4	2.8	1.0
JKX Oil	JKX	32.5	3.7%	37.1%	74	183	50.4%	3.3	24.7	4.3	6.5	2.5
Power Utilities												
Centrenergy	CEEN	6.25	1.6%	-32.5%	81	79	21.7%	neg	-18	neg	11.9	0.1
Donbasenergy	DOEN	20.00	-8.0%	-20.9%	17	15	14.2%	neg	6.9	2.0	1.7	0.1
Consumer												
MHP	MHPC	6.20	-4.6%	-31.9%	655	1811	34.1%	3.0	-4.4	4.8	4.4	0.9
Kernel	KER	50.50	15.3%	5.2%	1,073	2090	61.8%	9.1	3.1	4.7	3.4	0.5
Astarta	AST	24.70	-1.2%	54.4%	165	339	37.0%	87.8	19.9	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	5.04	6.6%	36.2%	29	17	25.0%	5.6	7.3	7.7	1.6	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.410	3.8%	33.2%	883		1.8%	4.8	5.7	1.6	1.8	0.26

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																
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	620	8.7%	10.8%	13.7%	189	118	350	4.8%	2.9%	7.7%
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			11.5%	10.5%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			11.7%	10.7%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.0%	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

Eavex Capital

7 Klovsyky 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