

Stock Market Update

Equity

Stocks traded on the Ukrainian Exchange had a mixed performance last week. The main focus of market players was on corporate news, with UkrNafta (UNAF) in the spotlight amid the government's move to forgive the company's huge tax debt. The UNAF stock jumped by 12% to UAH 179 after the special bill which aims to clean the company from the tax debt by compensating it for past natural gas confiscations was signed by President Zelensky. In the utility sector, CentrErgo (CEEN) added 5.6% to UAH 6.60. On the downside, Raiffeisen Bank Aval (BAVL) slipped by 2.4% to 40 kopecks after news that the country's banking sector as a whole saw a 23% drop in net profit in 10M20. The UX index gained 3.2% for the week to close at 1515 points on Friday.

In political developments, there was a surprising statement from Turkish Foreign Minister Mevlut Cavusoglu that Turkey is willing to support the Russia-annexed Crimean peninsula's return to Ukraine. The statement appears to be connected with the current tensions between Moscow and Ankara over the armed conflict in the South Caucasus region, in which the Kremlin backs Armenia and the Erdogan regime is supporting Azerbaijan.

London-listed Ferrexpo (FXPO) surged by 26% to GBP 262 per share, the stock's highest level since July 2019, before the issue began to get dragged down by the legal problems facing majority owner Constantine Zhevago. Ferrexpo got a boost amid a rally in iron ore benchmark prices which reached USD 135 per tonne. Rising energy prices propped up quotes for JXN Oil&Gas (JXN) and Enwell Energy (ENW) (former Regal Petroleum). Both stocks advanced by 15% to GBP 37.60 and GBP 25.40 respectively. Meanwhile, poultry producer MHP (MHPC) declined by 2.3% to USD 6.06.

On the Warsaw Stock Exchange, Kernel (KER) failed to hold its recently achieved gains, with the stock correcting by a significant 7.1% to PLN 46.90. Astarta (AST) was unchanged at PLN 24.70 and sporadically-traded Agroton (AGT) dropped by 10% to PLN 4.50.

The hryvnia strengthened by 1.0% to 28.26 UAH/USD, with the National Bank reporting no interventions on the currency market over the week.

Highlights

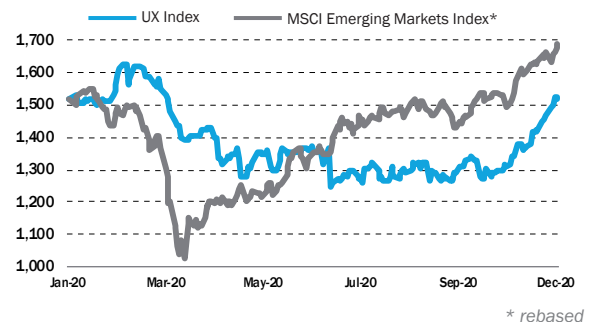
POLITICS AND ECONOMICS

- > Ukraine's GDP Warrants Reach All-Time High, Trade above Par Value

STOCKS IN THE NEWS

- > President Signs Bill Providing UAH 30bn Tax Debt Relief for UkrNafta

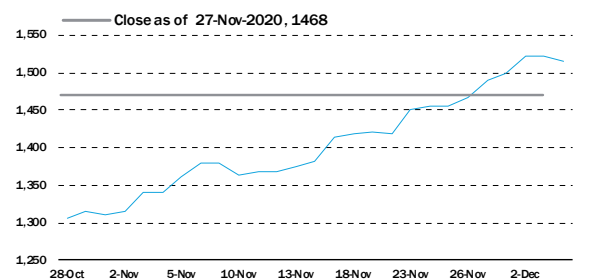
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1515	3.2%	-0.2%
RTS	1353	3.9%	-12.6%
WIG20	1965	6.1%	-8.5%
MSCI EM	1251	1.8%	12.2%
S&P 500	3699	1.7%	14.5%

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%	0.0 p.p.	+0.9 p.p.
Ukraine-2025	5.0%	-0.4 p.p.	-1.6 p.p.
Ukraine-2028	6.4%	-0.4 p.p.	-0.6 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.26	-1.0%	19.3%
EUR/UAH	34.35	0.8%	30.0%

Source: Eavex Capital

Ukraine's GDP Warrants Reach All-Time High, Trade above Par Value

by Will Ritter
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NEWS

The so-called VRI derivative securities (GDP warrants) that were placed by the Finance Ministry in 2015 to compensate investors for the write-down on Ukraine's sovereign debt load reached the highest trading level in their trading history last week, passing above par value to close at 101.7 cents on the dollar. Meanwhile, Ukraine's sovereign Eurobonds are currently trading at or near record-low yields, with the 2025 medium-term benchmark now yielding just 5.0%. The VRIs, which were issued in a nominal value of USD 3.2bn, are due to begin payouts to investors in 2021 in years when Ukraine's annual GDP growth exceeds 3%. Such payments are due to continue through 2040. In September, the Ukrainian government had repurchased some USD 330mn of the VRIs at a rumored price of 86 cents on the dollar.

COMMENTARY

During much of their trading history, Ukraine's VRIs had been trading substantially below par, and as low as 35 cents during the first year after their placement. However, the papers began to rise notably in 2018, and they had nearly reached par at the beginning of the COVID-19 crisis in February this year. Their recent rally mainly reflects the risk-on environment prevailing on global financial markets amid enormous central bank largesse and backstopping of fixed income instruments; there is also considerable optimism that the incoming Biden administration in the US will use aggressive fiscal stimulus to try to revive the US economy from the ongoing COVID downturn. Domestically, the Zelenskiy administration is currently in a period of positive engagement with the IMF, which is providing investors with enough confidence that the rising tide will also lift the Ukrainian boat. Still, the disconnect of such bullish market sentiments amid extremely difficult economic conditions for most citizens both in Ukraine and globally is a concerning phenomenon, as Ukrainian small businesses are facing dismal winter ahead of yet another round of COVID quarantining expected in January.

President Signs Bill Providing UAH 30bn Tax Debt Relief for UkrNafta

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 179 Market Cap: USD 343mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	3.2	0.3	neg	4.7	0.0%
2020E	1.1	0.2	1.5	1.1	n/a

NEWS

President Zelenskiy has signed the bill adopted by Ukraine’s Parliament in late November that provides a special scheme to forgive UAH 30bn in debt owed to the state by the country’s largest oil producer UkrNafta. After the bill was signed by the President, the Cabinet of Ministers issued an order to start the transaction.

As was reported earlier, the scheme for the transaction has the following stages: the Finance Ministry will pay UAH 32.2bn to 100% state-owned natural gas operator NaftoGaz 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 these 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

The approved scheme is first of all a victory for Privat Group beneficiary Igor Kolomoyskiy, who saw his bet on refusing to pay UkrNafta’s production taxes in 2014-15 deliver a positive result; UkrNafta is now effectively receiving hundreds of millions of dollars in compensation for natural gas which was confiscated from the company by the government more than a decade earlier. We are somewhat surprised that the IMF has not publicly weighed in on this matter, which involves a Finance Ministry outlay of more than USD 1bn. The news of Zelenskiy’s signature boosted quotes for Kyiv-listed UkrNafta’s shares; low liquidity on the Ukrainian Exchange prevented the stock from a sharper rise, although UNAF shares still gained a healthy 12% to UAH 179 for the week. The stock’s growth now is 24% since the beginning of the year. Nevertheless, we believe that there is much more room for appreciation once the debt situation is formally settled. UkrNafta’s current market capitalization is just USD 340mn, a figure that does not reflect the company’s scale of business: 2P petroleum reserves of 465mn barrel-of-oil-equivalents, as well as an expansive retail network of some 500 filling stations across the country.

Eavex Capital has a BUY recommendation on the UNAF stock with a target price of UAH 270, implying an upside of 50%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	46.9	65.0	39%	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	6.1	11.5	90%	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%	HOLD	<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	4.50	12.0	167%	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	262	250	-5%	HOLD	<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 by the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.</p>
Oil & Gas						
UkrNafta	UNAF	179	270	51%	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	25.4	--	--	U/R	
JKX Oil & Gas	JKX LN	37.6	--	--	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	6.60	15.00	127%	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	0.400	0.33	-18%	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	1515	3.2%	-0.2%								
Iron Ore Mining												
Ferrexpo	FXPO	262	26.1%	64.8%	2080	2254	24.0%	5.2	5.0	3.8	4.0	1.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	0.0%	15.4%	73	47	5.0%	2.4	7.9	1.2	3.3	0.2
Specialized Machinery												
Turboatom	TATM	8.7	0.0%	-18.1%	130	127	3.8%	10.6	6.2	2.6	2.3	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	396	394	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	179	11.9%	23.8%	343	332	3.0%	neg	1.5	4.7	1.1	0.2
Enwell Energy (ex-Regal)	ENW	25.4	15.5%	16.2%	110	70	21.6%	11.0	13.7	3.2	3.7	1.3
JKX Oil	JKX	37.6	15.5%	58.4%	87	195	50.4%	3.9	29.0	4.6	7.0	2.7
Power Utilities												
Centrenergy	CEEN	6.60	5.6%	-28.7%	86	84	21.7%	neg	-20	neg	12.7	0.1
Donbasenergy	DOEN	20.00	0.0%	-20.9%	17	15	14.2%	neg	7.0	2.0	1.7	0.1
Consumer												
MHP	MHPC	6.06	-2.3%	-33.4%	640	1796	34.1%	3.0	-4.3	4.8	4.3	0.9
Kernel	KER	46.90	-7.1%	-2.3%	1,010	2027	61.8%	8.6	2.9	4.6	3.3	0.4
Astarta	AST	24.70	0.0%	54.4%	167	342	37.0%	89.0	20.2	4.0	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	4.50	-10.7%	21.6%	26	15	25.0%	5.1	6.6	6.5	1.3	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.400	-2.4%	30.0%	870		1.8%	4.7	5.6	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

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