

Stock Market Update

Equity

Kyiv-listed stocks finished mixed for a second straight week as local portfolio managers preferred to rebalance their investments ahead of the year-end. The hottest stock for the last month, UkrNafta (UNAF), dropped by 6.7% to UAH 167 on profit taking after a firm rise from UAH 140 per share. Sporadically traded UX index member TurboAtom (TATM) fell 5.4% to UAH 8.2 without a visible driver. On the upside, CentrErgo (CEEN) advanced by 2.3% to UAH 6.75 and Raiffeisen Bank Aval (BAVL) bounced back to 41.00 kopecks, adding 2.5% for the week. The UX index shed 0.3% to close at 1510 points on Friday.

In economic news, the European Commission disbursed EUR 600mn in macrofinancial assistance to Ukraine. The loan should help the country to balance the national budget this year, as its deficit is estimated at near 8% of GDP on the back of the COVID crisis.

In London trading, JKX Oil&Gas (JKX) dropped by 14% to GBP 32.25 after Cascade Investment Fund, owned by Ukrainian politician Vitaliy Khomutynnik, sold a 20% stake in the company to Bridgewater fund. Iron ore miner Ferrexpo (FXPO) remained on the rise, adding 4.2% to GBP 273 per share. MHP (MHPC) was sluggish, declining by 5.0% to USD 5.76.

On the Warsaw Stock Exchange, Kernel (KER) was surprisingly weak, losing 3.4% to close at PLN 45.30 and once again showing itself unable to hold gains above the PLN 50 level. Eastern-Ukraine crop grower Agroton (AGT) fell 2.2% to PLN 4.40.

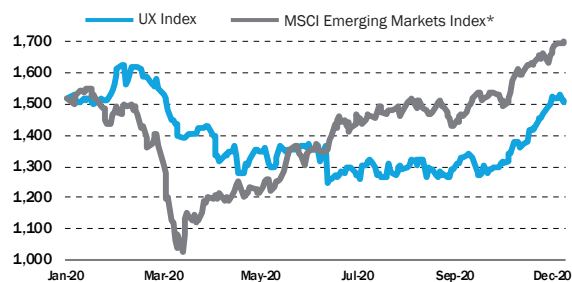
On the currency front, the hryvnia gained 1.1% against the dollar to 27.95 UAH/USD after the National Bank reported that it had not tapped the country's foreign currency reserves in November, leaving them unchanged at USD 26.1bn. The current level of the NBU reserves covers 4.3 months of the country's future imports, which is considered a healthy level.

Highlights

POLITICS AND ECONOMICS

- Ukraine Delays Lockdown Until January as COVID Cases Drop Back from Highs
- Ukraine Headline Inflation Rises to 3.8% after November Data

STOCK MARKET PERFORMANCE

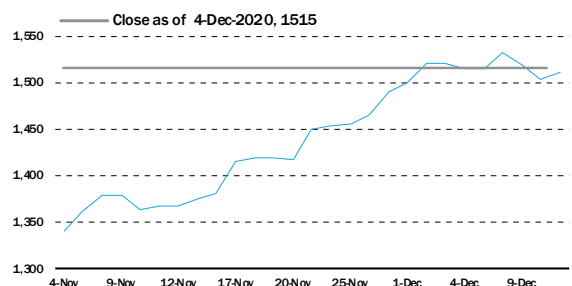


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1510	-0.3%	-0.6%
RTS	1428	5.5%	-7.8%
WIG20	1943	-1.1%	-9.6%
MSCI EM	1257	0.5%	12.8%
S&P 500	3663	-1.0%	13.4%

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	11.7%/10.5%	+0.1 p.p.	+1.0 p.p.
Ukraine-2025	4.8%	-0.2 p.p.	-1.8 p.p.
Ukraine-2028	6.3%	-0.1 p.p.	-0.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.95	-1.1%	18.0%
EUR/UAH	33.88	-1.4%	28.2%

Source: Eavex Capital

Ukraine Delays Lockdown Until January as COVID Cases Drop Back from Highs

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

NEWS

The Ukrainian government announced that a new round of quarantining to slow the spread of the COVID-19 virus will begin on Jan 8 after the country's Christmas and New Year holiday period, and last until Jan 25. Schools, public transportation, and restaurants will be forced to close during the period, although unlike during the strict quarantine seen in April and May, the country's borders will this time remain open for travelers. The most recent indicators showed that Ukraine's COVID case volume has fallen back to about 9,000 per day, down from a peak above 15,000 per day in the second half of November. Cabinet of Ministers Chief of Staff Oleg Nemchinov stated somewhat controversially on Sunday that Ukraine could tolerate as many as 35,000 new COVID cases per day before maximum restrictive measures would become necessary.

COMMENTARY

The Zelenskiy administration's move to delay the quarantine until after the New Year demonstrates a certain confidence that the epidemic is gradually stabilizing, an assumption that is borne out by the recent decline in new virus cases and hospitalizations. Ukraine continues to outperform most other European countries - albeit by less than in the spring and summer - in terms of COVID statistics. With vaccinations now on the horizon, we see the possibility that the worst of the COVID situation could be in the past by the time the domestic lockdown ends in late January. We believe Zelenskiy's decision to preserve economic and educational activity up until the holidays in late December is a prudent one; the country is already facing a 2020 GDP decline of at least 5% in official statistics, which likely underestimate the full economic damage of the quarantine restrictions which gripped the country in the initial wave of COVID panic during the spring of this year.

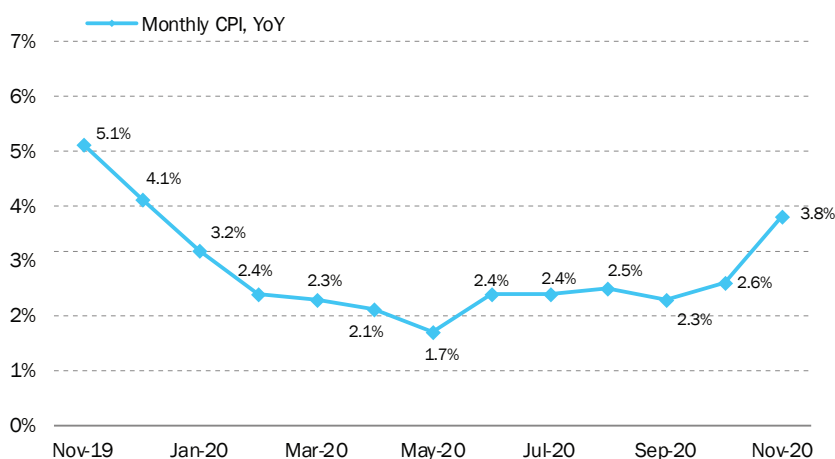
Ukraine Headline Inflation Rises to 3.8% after November Data

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

NEWS

Consumer inflation in Ukraine rose by 1.3% MoM in November, bringing the rolling 12-month “headline” inflation to 3.8%, up from 2.6% YoY for October, according to State Statistics Committee data published on Dec 9. In the CPI basket components, the largest monthly price increase was observed for natural gas, which surged by 26% MoM amid rising energy prices across the globe. The food category had an aggregate price index increase of 1.4% MoM in November.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

It was rather expected that Ukraine’s consumer inflation would accelerate somewhat in 4Q20 from its historical lows seen during this year. However, we had assumed a sharper price increase in the food component of the CPI basket, rather than in the natural gas price. UkrStat reported that the gas price for households has surged by 57% since the start of the year, leading to an aggregate increase in utility service costs by 13.4% YtD. Other utility services prices also grew significantly this year, with the water supply price rising by 18% YtD.

The exchange rate factor did not play a notable role for consumer prices in November, as the hryvnia hovered near 28.50 UAH/USD throughout the month. In a development which contradicts the Zelenskiy administration’s stated policy goal, the hryvnia has actually strengthened to 28.00 UAH/USD this month amid a broad devaluation of the dollar against other currencies. In general, the still-low 12-month inflation figure allows the National Bank to keep its key interest rate at a near all-time low of 6.0%. The NBU decided to hold the rate there on Thursday (Dec 10). However, the NBU’s rate decisions have only a limited impact on the real economy, as market interest rates in Ukraine remain far higher, well into double figures.

The next meeting of the Monetary Policy Board is scheduled on Jan 21. The National Bank provided its opinion that the quarantine restrictions announced by the government for January will not have much influence on economic activity and consumer demand, and thus on inflation. The NBU hinted that it stands ready to raise its key policy rate in response to accelerating inflation on the back of a revival of the global and Ukrainian economies.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	45.3	65.0	43%	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	5.8	11.5	100%	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	24.1	27.0	12%	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	4.40	12.0	173%	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	273	250	-8%	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	167	270	62%	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	25.5	--	--	U/R	
JKX Oil & Gas	JKX LN	32.3	--	--	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	6.75	15.00	122%	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	1503	-0.8%	-1.0%								
Iron Ore Mining												
Ferrexpo	FXPO	273	4.2%	71.7%	2118	2292	24.0%	5.3	5.0	3.9	4.0	1.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	0.0%	15.4%	74	47	5.0%	2.4	8.0	1.3	3.3	0.2
Specialized Machinery												
Turboatom	TATM	8.2	-5.4%	-22.5%	124	121	3.8%	10.1	5.9	2.4	2.2	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	401	399	24.0%	neg	13	21	4.0	1.2
Oil & Gas												
UkrNafta	UNAF	167	-6.7%	15.5%	324	312	3.0%	neg	1.4	4.5	1.1	0.2
Enwell Energy (ex-Regal)	ENW	25.5	0.4%	16.7%	108	68	21.6%	10.8	13.5	3.1	3.6	1.2
JKX Oil	JKX	32.3	-14.1%	36.1%	73	181	50.4%	3.3	24.3	4.3	6.5	2.5
Power Utilities												
Centrenergy	CEEN	6.75	2.3%	-27.1%	89	87	21.7%	neg	-20	neg	13.2	0.1
Donbasenergy	DOEN	20.00	0.0%	-20.9%	17	16	14.2%	neg	7.0	2.0	1.7	0.1
Consumer												
MHP	MHPC	5.76	-5.0%	-36.7%	609	1765	34.1%	2.8	-4.1	4.7	4.3	0.9
Kernel	KER	45.30	-3.4%	-5.6%	989	2006	61.8%	8.4	2.8	4.5	3.2	0.4
Astarta	AST	24.10	-2.4%	50.6%	165	340	37.0%	88.0	20.0	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	4.40	-2.2%	18.9%	26	14	25.0%	5.0	6.5	6.4	1.3	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.410	2.5%	33.2%	902		1.8%	4.9	5.8	1.6	1.9	0.27

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			11.7%	10.5%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			12.0%	10.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.2%	10.7%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	10.7%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	11.2%	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 Klovsky 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