

Stock Market Update

Equity

Ukrainian equities listed in Kyiv were mostly higher for the week, leading to a 1.1% gain for the UX index to 1527 points. Quotes for CentrErgo (CEEN) rose by 3.7% to UAH 7.00 per share, ignoring information that the company faced a fire accident at its Zmyivska Power Plant located in Kharkov province. The company reported that it has solved the problem and will perform additional inspection of technological equipment at Zmyivska TPP.

The country's largest oil producer UkrNafta (UNAF) enjoyed a 4.8% increase to UAH 175 per share amid rallying global crude prices, and more importantly, news that the Finance Ministry has distributed part of the funds in the three-sided transaction between the government, NaftoGaz and UkrNafta that effectively bails UkrNafta out of its huge accrued tax debt. On the downside of the UX index basket, Raiffeisen Bank Aval (BAVL) slipped by 2.4% to end at 40 kopecks on the nose.

In developments related to Ukrainian cooperation with the IMF, the Washington-based lender will hold talks with the Ukrainian authorities this week for a review of country's USD 5bn loan program, marking a breakthrough after months of delay.

In London trading, poultry giant MHP (MHPC) climbed back above the USD 6 line, advancing by a solid 7.3% to USD 6.18. Ferrexpo (FXPO) added 3.3% to GBP 282 per share as the iron ore market remained bullish. On the Warsaw Stock Exchange, Kernel (KER) increased by 3.4% to PLN 46.85 and Astarta (AST) rose 5.4% to PLN 25.40.

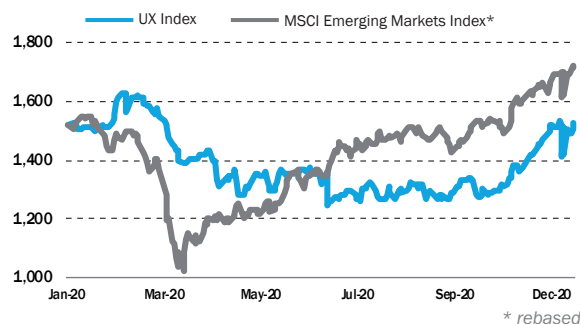
On the interbank currency market, the hryvnia edged down by 0.2% to 28.00 UAH/USD after a notable appreciation in the first half of the week in line with the historical December pattern. The National Bank stepped into the market with USD 300mn in foreign currency purchases to stop the hryvnia's rally.

Highlights

POLITICS AND ECONOMICS

- > Kharkiv Mayor Kernes Dies after 3-Month COVID Battle
- > 2021 Budget Forecasts 4.6% GDP Growth and Inflation of 7.3%

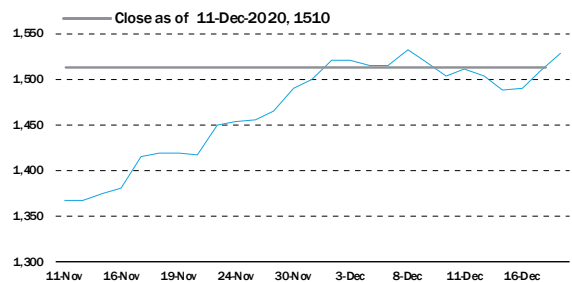
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1527	1.1%	0.5%
RTS	1402	-1.8%	-9.5%
WIG20	1952	0.5%	-9.1%
MSCI EM	1268	0.9%	13.8%
S&P 500	3708	1.2%	14.8%

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	12.0%/10.5%	+0.1 p.p.	+1.1 p.p.
Ukraine-2025	4.7%	-0.1 p.p.	-1.9 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.9 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.00	0.2%	18.2%
EUR/UAH	34.26	1.1%	29.7%

Source: Eavex Capital

Kharkiv Mayor Kernes Dies after 3-Month COVID Battle

by Will Ritter
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NEWS

Long-time Kharkiv mayor Gennadiy Kernes died on Dec 17 at a hospital in Berlin, where he had been receiving treatment for the COVID-19 virus and other ailments, domestic media reported. Kernes, 61, had been re-elected in October to a third term to lead Ukraine's second-largest city despite not having made any campaign appearances; he was last seen in public in August. This week it was revealed that he had fallen ill in September and traveled to Germany. In November, when Kernes still did not appear after his victory, rumors began to circulate about serious health problems. Kernes was previously badly injured in April 2014 when he was shot in an attempted assassination, and he had been confined to a wheelchair ever since. Kernes was first elected to the Kharkiv mayorship in 2010 after narrowly defeating current Ukrainian Interior Minister Arseniy Avakov in a bitterly contested race, and he then comfortably won a second term in 2015.

COMMENTARY

Kernes was - literally - one of the most impressive survival stories in Ukrainian politics, running Kharkiv for nearly 10 years and playing a key role in the 2014 EuroMaidan revolution and its aftermath, which earned him the hostility of both sides in the conflict; the attackers responsible for the attempt on his life were never caught, and it remains unclear whether they represented Ukrainian nationalist forces, the pro-Russian Kharkiv People's Republic militia, or some other entity. Initially a supporter of then-President Yanukovich during the EuroMaidan events, Kernes changed sides in the midst of the Russian-sponsored separatist uprisings that took Eastern Ukraine by storm in April 2014, and became a strong backer of Ukraine's state integrity despite continuing to occupy a niche as a generally Russia-friendly politician. Kernes was reported to have good relations with President Petro Poroshenko, and he managed to coexist with his former local arch-rival Avakov heading the Interior Ministry. Kernes was not seen as an ally of current President Zelenskiy, but he seems to have done Zelenskiy a political favor by winning re-election instead of standing down and backing a different candidate of his choice; this has created an opening for Zelenskiy to install his own representative to control the city government, after Zelenskiy's People's Servant party registered a disastrous showing in the October municipal elections, not winning a single major city mayorship.

2021 Budget Forecasts 4.6% GDP Growth and Inflation of 7.3%

by Dmitry Churin
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NEWS

Ukraine's Parliament approved the country's 2021 national budget based on a 4.6% GDP growth projection next year, compared to this year's expected contraction of 5.2%, according to an official statement on Parliament's website.

The budget bill was passed with 289 votes in favor (out of 226 required; Parliament has a total of 423 MPs with 27 seats vacant).

The main parameters of the budget are the following:

- forecasted GDP growth of 4.6% YoY;
- nominal GDP of UAH 4.48tn (USD 154bn);
- total budget income of UAH 1.09tn;
- total budget expenses of UAH 1.33tn;
- a deficit 5.5% of GDP (USD 8.5bn);
- forecasted consumer inflation of 7.3% YoY;
- a forecasted average exchange rate at 29.10 UAH/USD;
- healthcare spending at 4.3% of GDP and a defence budget at 5.9% of GDP.

The bill prescribes a UAH 6,000 (USD 206) national minimum monthly wage with an embedded option to increase the minimum wage to UAH 6,500.

The bill was supported by most of the MPs from President Volodymyr Zelensky's Servant of People party (225 votes). Also, Yulia Tymoshenko's Batkivschyna party gave 12 votes. The remainder came from 11 independent MPs and from so-called business groups of MPs. The Russian-leaning Opposition Bloc and ex-President Petro Poroshenko's party European Solidarity gave no votes in favor of the bill.

COMMENTARY

Although the budget deficit looks significant, it was agreed with the IMF experts and is supposed to be covered partly by loans from Western donors. The national budget deficit is expected to be reduced to 4.5% of GDP for 2022 and to 3.5% for 2023.

We cannot evaluate how realistic the projected budget income is, but there certainly will be challenges to refinance the country's planned debt redemptions scheduled for 2021. Ukraine is on the hook to pay USD 5.2bn in servicing and redemption of its foreign debt. Meanwhile, the country's internal debt servicing and redemptions are estimated at UAH 315bn (an equivalent of USD 11bn). However, the lion's share of internal debt is held by the National Bank and the big state-owned banks, meaning that the internal debt will likely be refinanced. The situation with external debt depends on whether Ukraine remains in the IMF program, giving Kyiv the ability to tap the international market with new Eurobond placements.

Privatization of state assets should bring in UAH 12bn (USD 410mn) to the national budget income in 2021. The privatization target can hardly be called ambitious, but even this modest sum could turn out to be unachievable for the State Property Fund. Ukraine has been trying and failing to increase proceeds from privatization for more than a decade.

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 9.1, translating at the 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	86%	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	25.4	27.0	6%	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	4.18	12.0	187%	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	282	250	-11%	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	175	270	54%	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	22.2	--	--	U/R	
JKX Oil & Gas	JKX LN	30.0	--	--	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	7.00	15.00	114%	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	1527	1.1%	0.5%								
Iron Ore Mining												
Ferrexpo	FXPO	282	3.3%	77.4%	2239	2413	24.0%	5.6	5.3	4.1	4.2	1.7
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	0.0%	15.4%	74	47	5.0%	2.4	8.0	1.2	3.3	0.2
Specialized Machinery												
Turboatom	TATM	8.2	0.0%	-22.5%	124	121	3.8%	10.1	5.9	2.4	2.2	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	400	398	24.0%	neg	13	21	4.0	1.2
Oil & Gas												
UkrNafta	UNAF	175	4.8%	21.0%	339	327	3.0%	neg	1.5	4.7	1.1	0.2
Enwell Energy (ex-Regal)	ENW	22.2	-12.9%	1.6%	96	56	21.6%	9.6	12.0	2.5	2.9	1.0
JKX Oil	JKX	30.0	-7.0%	26.6%	69	178	50.4%	3.1	23.2	4.2	6.4	2.4
Power Utilities												
Centrenergy	CEEN	7.00	3.7%	-24.4%	92	90	21.7%	neg	-21	neg	13.6	0.1
Donbasenergo	DOEN	20.00	0.0%	-20.9%	17	16	14.2%	neg	7.0	2.0	1.7	0.1
Consumer												
MHP	MHPC	6.18	7.3%	-32.1%	653	1809	34.1%	3.0	-4.4	4.8	4.4	0.9
Kernel	KER	46.85	3.4%	-2.4%	1,023	2040	61.8%	8.7	2.9	4.6	3.3	0.5
Astarta	AST	25.40	5.4%	58.8%	174	349	37.0%	92.7	21.1	4.0	3.2	0.6
Avangardco	AVGR	0.01	-80%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	4.18	-5.0%	13.0%	25	13	25.0%	4.8	6.2	5.8	1.2	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.400	-2.4%	30.0%	879		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																
Centrenergo	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			11.5%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000204556			12.0%	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

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