

Stock Market Update

Equity

Ukraine's equity market is heading into the New Year on a positive note, with the UX index advancing by 3.5% last week to close at 1587 points on Thursday (Dec 24). Local stocks got a boost from news that the IMF monitoring mission's planned meetings with the government, both at the highest level and at the expert level, went well. In major macroeconomic statistics, there was a statement from UkrStat that the country's GDP shrank by 3.5% YoY in 3Q20, but rebounding by 8.5% compared to 2Q, which was hit hard by the strict COVID lockdown of the spring. Actual economic indicators are mostly coming in better than projected.

In individual stocks, UkrNafta (UNAF) surged 8.6% to UAH 190 per share after the company reported that it repaid its accrued tax debt of UAH 28.9bn. The company got the money for the tax repayment from its parent NaftoGaz as advance payment for future natural gas deliveries as well as payment for previously supplied gas.

Quotes for CentrErgo (CEEN) increased by 2.9% to UAH 7.20 and Raiffeisen Bank Aval (BAVL) added 2.5% to 41.00 kopecks. TurboAtom (TATM) edged up by 0.6% to UAH 8.30.

London-listed iron ore producer Ferrexpo (FXPO) remained unstoppable in its upward momentum, gaining 5.3% to GBP 297 per share. JXK Oil&Gas (JKX) was unchanged at GBP 30 on the nose.

On the Warsaw Stock Exchange, Kernel (KER) rose 3.3% to PLN 48.40 while Astarta (AST) was flat at PLN 25.40.

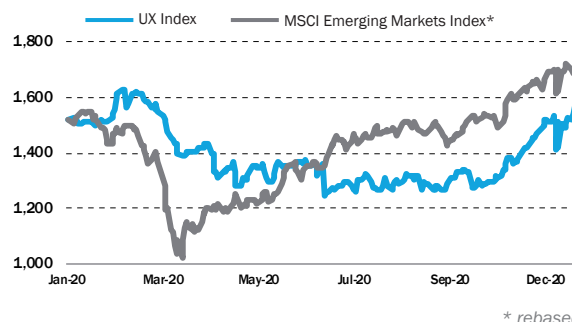
On the currency front, the hryvnia gave back its entire gain against the dollar from the preceding week, losing 1.3% to close at 28.40 UAH/USD. However, we see the national currency as having a chance to strengthen to 27.50 UAH/USD in 1Q21, as export markets have once again become favorable for Ukrainian commodities.

Highlights

POLITICS AND ECONOMICS

- > Former Naftogaz COO Vitrenko Named to Lead Energy Ministry
- > Ukrainian Industry Had Best Month of 2020 in November

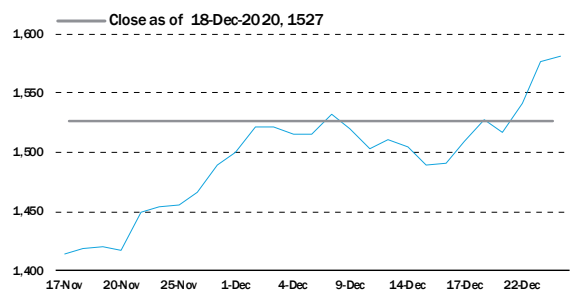
STOCK MARKET PERFORMANCE



MARKET INDEXES

| | Last | 1W ch | YTD |
|---------|------|-------|--------|
| UX | 1581 | 3.5% | 4.1% |
| RTS | 1378 | -1.7% | -11.0% |
| WIG20 | 1955 | 0.2% | -9.0% |
| MSCI EM | 1255 | -1.0% | 12.6% |
| S&P 500 | 3703 | -0.1% | 14.6% |

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 | 12.0%/10.5% | 0.0 p.p. | +1.1 p.p. |
| Ukraine-2025 | 4.9% | 0.2 p.p. | -1.7 p.p. |
| Ukraine-2028 | 6.3% | 0.2 p.p. | -0.7 p.p. |

CURRENCY

| | Last, UAH | 1W chg. | YTD |
|---------|-----------|---------|-------|
| USD/UAH | 28.40 | 1.4% | 19.9% |
| EUR/UAH | 34.71 | 1.3% | 31.4% |

Source: Eavex Capital

Former Naftogaz COO Vitrenko Named to Lead Energy Ministry

by Will Ritter
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NEWS

Yuriy Vitrenko, a former top manager of Ukraine's state energy giant Naftogaz, was appointed as acting Energy Minister on Dec 22 by PM Dennis Shmygal after his permanent appointment to the post failed to pass a parliamentary vote earlier this month. Vitrenko previously held the titles of chief operating officer and executive director at Naftogaz from early 2014 until June of this year, when he resigned amid disagreements with his longtime ally Andriy Kobolev, who remains as Naftogaz CEO. Under the leadership of Kobolev and Vitrenko, the state company ended its long string of losses and posted bottom-line profits for three consecutive years. Vitrenko will replace Olga Buslavets, who also had held the portfolio in an acting capacity since May of this year.

COMMENTARY

Vitrenko, aged 44, is one of the brightest reform success stories in post-EuroMaidan Ukraine, and his de-facto appointment to head Ukraine's energy sector is being well-received across the board. The resistance to Vitrenko from oligarchic interests was apparent in the parliamentary vote, in which President Zelenskiy's People's Servant party was unable to push through his candidacy despite nominally holding a comfortable majority in the chamber. While Buslavets was viewed as friendly to the interests of industrialist Rinat Akhmetov, we expect Vitrenko to emphasize a level-playing-field approach to various business groups and to prioritize overall state interests in the key economic post. Although Vitrenko's professional biography is thoroughly Western, including an MBA from INSEAD and a stint working for Merrill Lynch in London, his mother, Natalia Vitrenko, was a high-profile pro-Russian politician in Ukraine who ran for president in 1999, winning 11% of the votes. We suppose that the timing of Vitrenko's appointment - during the visit of the IMF mission to Kyiv - was not accidental, as Zelenskiy and his Chief of Staff Andriy Yermak undoubtedly understand the public relations value of this move. In addition to his management achievements, Vitrenko is also credited with spearheading Naftogaz's legal effort in the Stockholm Arbitration case against Russia, which ultimately led to a USD 2.9bn award to Ukraine from Gazprom. One of the first issues facing the new acting minister will be resolving the situation of the nearly USD 1bn in payment arrears owed by the government to renewable energy producers - a sector dominated by the country's oligarchs.

Ukrainian Industry Had Best Month of 2020 in November

by Dmitry Churin
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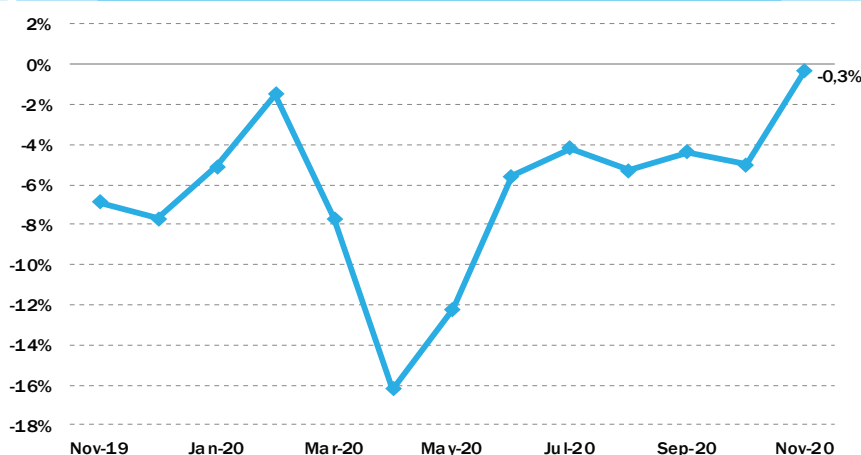
NEWS

The year-long decline in Ukraine’s nationwide industrial output slowed sharply to just 0.3% YoY in November, after the drop of 5.0% YoY registered for October, the State Statistics Committee (UkrStat) reported last week. The month-on-month change in November was a rise of 1.1%. In the manufacturing sector, there was a production decrease of 3.4% YoY in November, but in the utility sector there was output growth of 10% YoY, and the extraction industry demonstrated a rise of 1.1% YoY. Year-to-date through November, UkrStat’s industrial index is down by 6.2% YoY.

In other macroeconomic statistics for November, retail sales surged by 11.1% YoY and edged up by 0.2% compared to October. Year-to-date, the retail sales index is up by 7.8% YoY.

In the agro sector, aggregate output in January-November dropped by 12.4% YoY, mainly amid a lower grain harvest this year which totaled 65mn tonnes compare to the historical record harvest of 75mn tonnes seen last year.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The nearly flat year-on-year performance of Ukraine’s industrial output is the best statistic in this area registered in more than a year, since the autumn of 2019; the monthly norm has been declines of 6-7%, a phenomenon which began even before the COVID-induced recession. It appears that the resurgence in the global market for steel is finally reaping some dividends for Ukraine’s key metallurgy sector, and this can be expected to continue in the coming months. Of course, another reason for the improved year-on-year metric in November is the lower comparison base from November 2019, when the big drops in output began. We are optimistic that Ukrainian industrial production could start to show year-on-year gains in December, opening a prospect for a more or less healthy IP index rebound of 3% for 2021. Meanwhile, the machinery sector is likely to remain weak, as the domestic market has limited incentive for capital investments, while competition in machinery products on the external market has become tougher. As for retail sales, we note, as previously, that the COVID crisis seems to have done almost no damage in that sector of the economy, which has been showing extremely powerful growth in Ukraine for more than three years now.

EAVEX RECOMMENDATIONS

| Name | Ticker | Price, per share | Target price, per share | Upside, % | Rating | Commentary |
|------------------------------|---------|------------------|-------------------------|-----------|--------|---|
| Agriculture | | | | | | |
| Kernel | KER PW | 48.4 | 65.0 | 34% | 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 | 5.9 | 11.5 | 94% | 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 | 4.24 | 12.0 | 183% | 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 | 297 | 250 | -16% | 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 | 190 | 270 | 42% | 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 | 21.2 | -- | -- | 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 | 7.20 | 15.00 | 108% | 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 | 1581 | 3.5% | 4.1% | | | | | | | | |
| Iron Ore Mining | | | | | | | | | | | | |
| Ferrexpo | FXPO | 297 | 5.3% | 86.8% | 2360 | 2534 | 24.0% | 5.9 | 5.6 | 4.3 | 4.4 | 1.8 |
| Railcar Manufacturing | | | | | | | | | | | | |
| Kryukiv Wagon | KVBZ | 18.0 | 0.0% | 15.4% | 73 | 46 | 5.0% | 2.4 | 7.9 | 1.2 | 3.3 | 0.2 |
| Specialized Machinery | | | | | | | | | | | | |
| Turboatom | TATM | 8.3 | 0.6% | -22.0% | 123 | 120 | 3.8% | 10.0 | 5.9 | 2.4 | 2.2 | 1.1 |
| Motor Sich | MSICH | 5390 | 0.0% | 0.0% | 394 | 392 | 24.0% | neg | 13 | 21 | 3.9 | 1.1 |
| Oil & Gas | | | | | | | | | | | | |
| UkrNafta | UNAF | 190 | 8.6% | 31.4% | 363 | 351 | 3.0% | neg | 1.6 | 5.0 | 1.2 | 0.2 |
| Enwell Energy (ex-Regal) | ENW | 21.2 | -4.5% | -3.0% | 92 | 52 | 21.6% | 9.2 | 11.5 | 2.4 | 2.7 | 0.9 |
| JKX Oil | JKX | 30.0 | 0.0% | 26.6% | 70 | 178 | 50.4% | 3.1 | 23.2 | 4.2 | 6.4 | 2.4 |
| Power Utilities | | | | | | | | | | | | |
| Centrenergy | CEEN | 7.20 | 2.9% | -22.2% | 94 | 92 | 21.7% | neg | -21 | neg | 13.8 | 0.1 |
| Donbasenergy | DOEN | 20.00 | 0.0% | -20.9% | 17 | 15 | 14.2% | neg | 6.9 | 2.0 | 1.7 | 0.1 |
| Consumer | | | | | | | | | | | | |
| MHP | MHPC | 5.94 | -3.9% | -34.7% | 628 | 1784 | 34.1% | 2.9 | -4.2 | 4.7 | 4.3 | 0.9 |
| Kernel | KER | 48.40 | 3.3% | 0.8% | 1,042 | 2059 | 61.8% | 8.8 | 3.0 | 4.6 | 3.3 | 0.5 |
| Astarta | AST | 25.40 | 0.0% | 58.8% | 172 | 346 | 37.0% | 91.5 | 20.8 | 4.0 | 3.2 | 0.6 |
| Avangardco | AVGR | 0.01 | 0% | -95.0% | 1 | 332 | 22.5% | 0.3 | 0.2 | 20 | 17 | 2.8 |
| Agroton | AGT | 4.24 | 1.4% | 14.6% | 25 | 13 | 25.0% | 4.8 | 6.2 | 5.8 | 1.2 | 0.2 |
| Banks | | | | | | | | | | | | |
| Raiffeisen Bank Aval | BAVL | 0.410 | 2.5% | 33.2% | 888 | | 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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