

Stock Market Update

Equity

The UX index, Ukraine's main equity benchmark, opened 2021 with a decline of 2.5% to finish the holiday-shortened first trading week of the year at 1576 points. The latest National Bank business sentiment survey showed that the country's entrepreneurs are quite pessimistic regarding the pace of economic recovery in 2021.

Among the UX basket components, UkrNafta (UNAF) slipped 1.6% to UAH 187 per share after newly appointed acting Energy Minister Yuriy Vitrenko announced his intention to transfer the government's controlling stake in UkrNafta from state-owned NaftoGaz to the Energy Ministry. The news raised uncertainty regarding the possibility of splitting UkrNafta into separate oil and natural gas business divisions.

CentrEnergO (CEEN) edged up by 0.5% to UAH 7.50 after the government confirmed a strategy to create a new integrated entity based on the assets of CentrEnergO and state-owned coal mines. The goal is to improve CentrEnergO's profitability by providing the company with a reliable and transparent coal supplies. Raiffeisen Bank Aval (BAVL) and TurboAtom (TATM) were unchanged at 41 kopecks and UAH 8.30 per share respectively.

In London, iron ore producer Ferrexpo (FXPO) rocketed higher by almost 20% last week to reach GBP 350. The company announced a special interim dividend of 13 US cents per share to be paid out on Jan 28 to shareholders on the register at the close of business on Jan 15. MHP (MHPC) advanced by 5.7% to USD 6.28.

On the Warsaw Stock Exchange, Kernel (KER) rose 1.7% to PLN 49.20. It seems that the PLN 50 line will again act as a strong resistance level for the KER stock. Meanwhile, less liquid agro name Astarta (AST) jumped by 17% to PLN 29.70.

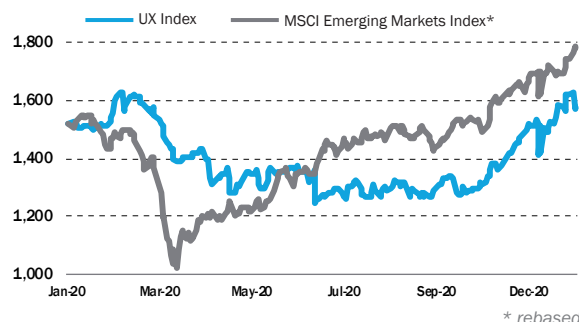
The hryvnia had an uneventful trading week, remaining virtually unchanged at 28.26 UAH/USD. The National Bank report that the country's foreign currency reserves grew by USD 3.0bn in December to USD 29.1bn was clearly positive news.

Highlights

POLITICS AND ECONOMICS

- > Leaked Audio Casts New Suspicion on Lukashenko in Sheremet Case
- > Ukraine Foreign Reserves Reach USD 29bn After Rising 15% in 2020

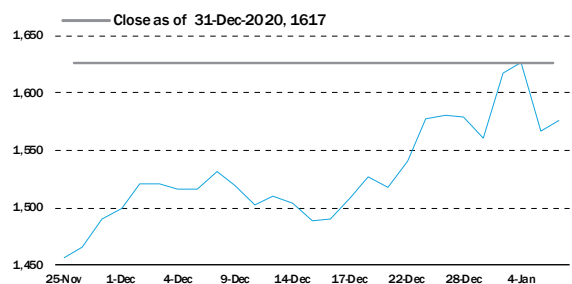
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1576	-2.5%	-2.5%
RTS	1466	5.7%	5.7%
WIG20	2072	3.9%	3.9%
MSCI EM	1353	4.8%	4.8%
S&P 500	3824	1.8%	1.8%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	0.0 p.p.
UAH 1-year bond	12.0%/11.5%	+0.5 p.p.	+0.5 p.p.
Ukraine-2025	4.8%	-0.1 p.p.	-0.1 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.26	0.0%	0.0%
EUR/UAH	34.80	0.2%	0.2%

Source: Eavex Capital

Leaked Audio Casts New Suspicion on Lukashenko in Sheremet Case

by Will Ritter
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NEWS

An audio recording of the head of the Belarus KGB security service discussing plans to murder journalist Pavel Sheremet with a bomb has brought new scrutiny to theories that Belarus president Alexander Lukashenko may have been behind Sheremet's assassination in July 2016 in central Kyiv, in which a bomb was placed underneath his car. The audio, which was surreptitiously recorded in the office of then-KGB head Vadim Zaiytsev in April 2012, was obtained and published last week by the independent news portal EU Observer. Sheremet was a Belarusian exile and critic of the Lukashenko regime who took on a prominent role in Ukrainian media in the final years of his life. Three individuals associated with radical Ukrainian nationalist groups have been under arrest for planting the bomb for more than 2 years.

COMMENTARY

This development comes at a time when things had been improving for Lukashenko, as months of mass domestic protests against his rule have finally subsided. The release of the audio seems to bear the hallmark of an operation by a foreign intelligence service, but it is difficult to say which country could be behind it. In our view, it is equally possible that the U.S. and/or Russia might be trying to find a way to send Lukashenko to the exits. The Sheremet case, unsolved going on 5 years after the event, remains highly resonant in Ukraine and is an ongoing thorn in the side of the country's law enforcement. It reflects particularly poorly on Interior Minister Arseniy Avakov, who bridged the gap between the Poroshenko and Zelenskiy administrations to stay in his post, and was originally tasked with solving the crime. The officially-proffered explanation that the 3 arrested nationalists were trying to destabilize the domestic political situation in Ukraine by assassinating a prominent media figure remains unconvincing.

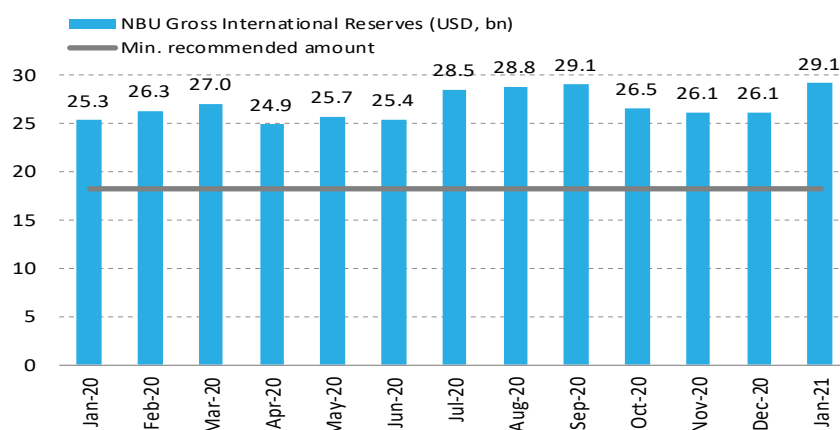
Ukraine Foreign Reserves Reach USD 29bn After Rising 15% in 2020

by Dmitry Churin
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NEWS

The Ukrainian National Bank's (NBU) foreign reserves increased by 15.1% YoY to USD 29.1bn in 2020, according to official NBU data. The reserves reached an 8-year high and now cover 4.8 months of the country's future imports, compared to the minimum 3 months of imports recommended by economic theory. The NBU's net forex purchases on the interbank market amounted to USD 1.0bn in 2020. Meanwhile, in December alone, the reserves grew by USD 3.0bn as a result of significant hard currency inflows to the government from borrowings. The government received an equivalent of USD 1.0bn from the placement of domestic USD-denominated bonds, and USD 670mn from Eurobond placements. Currently, the NBU reserves consist of USD 23.7bn of securities with credit ratings between AAA and A, USD 3.8bn of current accounts and deposits, and USD 1.6bn of monetary gold. In terms of the currency breakdown, the US dollar represents 77% of Ukraine's foreign reserves.

UKRAINE'S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

The notable rise in Ukraine's forex reserves in 2020 occurred simultaneously with the national currency moving in the opposite direction; the hryvnia devalued by 16% against the dollar last year. The currency took a hit from the COVID-related drop in economic activity and the demand for foreign currency by the government and businesses to service external debt. Although official statistics state that Ukraine's current account (C/A) balance improved to a surplus of USD 6.8bn in 11M20 compared to the C/A deficit of USD 6.2bn in 11M19, the balance of payment (BoP) turned to a deficit of USD 848mn compared to the BoP surplus of USD 2.7bn in 11M19.

Taking into account that Ukraine's overall spending on external debt servicing and repayment is estimated at USD 5.9bn in 2021, it appears that the current level of reserves should allow smooth servicing of sovereign Eurobonds, the biannual coupon payments on which are due each March and September. On the other hand, the projected national budget deficit of 5.5% of GDP for this year will put pressure on the government to raise more debt, including USD/EUR-denominated debt, and this means that in case of worsening market conditions, Ukraine would need to tap its reserves instead of finding sources to refinance the scheduled debt redemptions.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	49.2	65.0	32%	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.</p>
MHP	MHPC LI	6.3	11.5	83%	BUY	<p>Although MHP's business has not not suffered much from the COVID-19 crisis, the MHPC stock has tumbled by near 30% in 2020 as investors fear that the company's quite large debt burden could become unsustainable at some point. MHP's total debt was USD 1.47bn as of 30 Sept 2020. The Net Debt/EBITDA ratio was 3.3x as of 30 Sept 2020, up from 3.0x as of 1 Jan 2020. The company reported revenue of USD 1.41bn (-6% YoY), EBITDA of USD 332mn (-7% YoY), and a net loss of USD 109mn in 9M20. Meanwhile, MHP's net profit before the FX loss was USD 81mn in 9M20.</p>
Astarta	AST PW	29.7	27.0	-9%	HOLD	<p>The AST stock surged after the company managed to improve its debt to EBITDA ratio. Net Debt reduced to EUR 175mn corresponding to Net debt/EBITDA (LTM) of 1.6x at the end of 9M20. Back in 2019 Astarta's Net debt/EBITDA topped an unsustainable level of 5.6x.</p>
Agroton	AGT PW	4.70	12.0	155%	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	350	280	-20%	SELL	<p>High iron ore prices are due for a correction as Chinese demand for the steelmaking ingredient is expected to ease, though aggressive speculation through iron ore derivative trading could thwart that outcome. The benchmark 62% Fe iron ore prices surged by 70% YoY to a level of USD 160 per tonne in 2020. Ferrexpo will unveil its full year financial results on 17 March 2021.</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	187	270	44%	BUY	<p>UkrNafta surged 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. On the other hand, the company is still in uncertainty whether the government will decide to divide UkrNafta's natural gas business and its crude extraction business.</p>
Enwell Energy (ex-Regal)	ENW LN	27.0	--	--	U/R	
JKX Oil & Gas	JKX LN	32.7	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	23.0	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.</p>
CenterEnerg	CEEN	7.50	15.00	100%	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 7 per share after yet another failed attempt to privatize the company. Persisting uncertainty about whether CentrEnerg can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnerg is in a process to be integrated with the state coal mines to get cheaper fuel for its power stations. The integration is set to be completed in 2H21.</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 2021E
			1W	YtD				2020E	2021E	2020E	2021E	
UX Index	UX	1576	-2.5%	-2.5%								
Iron Ore Mining												
Ferrexpo	FXPO	350	17.8%	17.8%	2781	2955	24.0%	6.6	5.5	5.2	4.3	1.7
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	0.0%	0.0%	73	46	5.0%	8.5	13.9	3.5	4.7	0.2
Specialized Machinery												
Turboatom	TATM	8.3	0.0%	0.0%	123	120	3.8%	6.3	8.6	2.3	2.9	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	394	392	24.0%	12.5	16.9	3.8	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	187	-1.6%	-1.6%	357	345	3.0%	neg	15.8	1.2	5.7	0.4
Enwell Energy (ex-Regal)	ENW	27.0	27.4%	27.4%	117	63	21.6%	39.0	13.0	2.4	2.1	1.0
JKX Oil	JKX	32.7	9.0%	9.0%	76	184	50.4%	18.9	10.8	6.6	5.4	2.2
Power Utilities												
Centrenergo	CEEN	7.50	4.2%	4.2%	98	96	21.7%	neg	56	14.3	6.5	0.1
Donbasenergo	DOEN	23.00	15.0%	15.0%	19	18	14.2%	8.6	6.9	2.1	2.2	0.1
Consumer												
MHP	MHPC	6.28	5.7%	4.3%	664	1820	34.1%	neg	5.5	4.4	4.0	0.9
Kernel	KER	49.20	1.7%	-0.2%	1,060	2077	61.8%	9.0	3.0	4.7	3.3	0.5
Astarta	AST	29.70	16.9%	13.4%	201	375	37.0%	24.3	19.1	3.1	2.8	0.7
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	4.70	10.8%	7.3%	28	17	25.0%	13.8	11.0	1.6	1.9	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.410	0.0%	0.0%	888		1.8%	5.7	7.0	1.8	1.8	0.23

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		
		2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
Iron Ore Mining																
Ferrexpo	FXPO	1507	1430	1788	586	570	684	38.9%	39.9%	38.3%	403	420	510	26.7%	29.4%	28.5%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
Specialized Machinery																
Turboatom	TATM	110	105	94	49	52	41	45.0%	49.1%	44.1%	12	19	14	11.1%	18.4%	15.2%
Motor Sich	MSICH	358	353	338	19	102	90	5.2%	29.1%	26.5%	-14	32	23	-3.8%	8.9%	6.9%
Oil & Gas																
Ukrnafta	UNAF	1098	1892	941	-115	293	61	-10.5%	15.5%	6.5%	-158	234	23	-14.4%	12.4%	2.4%
Regal Petroleum	RPT	50	55	62	22	26	30	44.0%	47.3%	48.4%	10	3	9	20.0%	5.5%	14.5%
JKX Oil	JKX	102	73	85	42	28	34	41.6%	38.4%	40.0%	22	4	7	21.8%	5.5%	8.2%
Electric Utilities																
Centrenergo	CEEN	589	698	686	-69	7	15	-11.7%	1.0%	2.1%	-77	-4	2	-13.1%	-0.6%	0.3%
Donbasenergo	DOEN	249	256	247	8	9	8	3.1%	3.3%	3.2%	-3	2	3	-1.1%	0.9%	1.1%
Consumer																
MHP	MHPC	2056	1950	2087	376	414	455	18.3%	21.2%	21.8%	215	-150	120	10.5%	-7.7%	5.8%
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	497	484	517	86	122	136	17.4%	25.1%	26.3%	2	8	11	0.4%	1.7%	2.0%
Avangardco	AVGR	135	120	110	17	19	17	12.6%	15.8%	15.5%	2	3	-10	1.5%	2.5%	-9.1%
Agroton	AGT	54	30	33	2	11	9	4.1%	36.7%	27.9%	5	2	3	9.5%	6.7%	7.6%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3891	3925	550	491	497	280	271	249	185	156	126	33.6%	31.7%	25.4%

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%	11.5%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			12.2%	11.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.5%	11.7%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	11.7%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	12.0%	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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