

Stock Market Update

Equity

Kyiv-listed equities finished notably higher last week after the country's economic prospects for this year improved amid the sharp recovery in Ukraine's export-oriented metallurgical industry. In particular, iron ore exports from Ukraine jumped by 34% YoY to 3.3mn tonnes in December. For full-year 2020, iron ore exports rose 16% YoY to 46.3mn tonnes. Although the country's steelmakers reduced their output by 1.4% YoY to 20.6mn tonnes, export sales of semi-finished casting products increased by 6.3% YoY.

Meanwhile, the IMF monitoring mission for the first revision of Ukraine's current loan deal resumed its work on Jan 11, with the date for the tranche disbursement of USD 700mn not yet clear.

The UX index advanced by a firm 3.9% for the week to close at 1637 points. CentrEnerg (CEEN) added the most points to the gauge, gaining 6.7% to UAH 8.00 per share. UkrNafta (UNAF) added 2.7% to UAH 192 and Raiffeisen Bank Aval (BAVL) picked up 4.9% to end at 43.00 kopecks.

In London trading, Ferrexpo (FXPO) corrected by 5.7% to GBp 330 after its gain of nearly 20% over the preceding week. News that the company increased its pellet production by 7% YoY to 11.2mn tonnes for 2020 did not impact the stock. MHP (MHPC) slipped by 2.9% to USD 6.10 and Enwell Energy (formerly Regal) dropped by 5.6% to GBp 25.50.

Warsaw-listed Ukrainian agro companies were firmly higher, with Kernel (KER) rising by 7.3% to PLN 52.80 and Agroton (AGT) adding 12% to PLN 5.30. Sugar producer Astarta (AST) jumped by 16% to PLN 34.50.

On the interbank currency market, the hryvnia added 0.3% to close at 28.17 UAH/USD despite the overall strength of the dollar against other world currencies.

Highlights

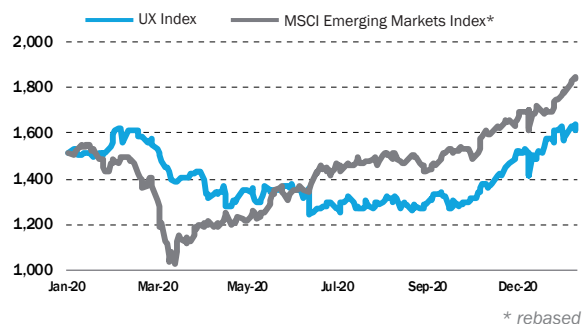
POLITICS AND ECONOMICS

- > US Hits Back Hard Against Derkach Over Biden Sabotage Efforts
- > Ukraine Full-Year 2020 Inflation Comes In at 5.0%

STOCKS IN THE NEWS

- > Ferrexpo's 2020 Output Increases by 7% YoY to 11.2mn Tonnes

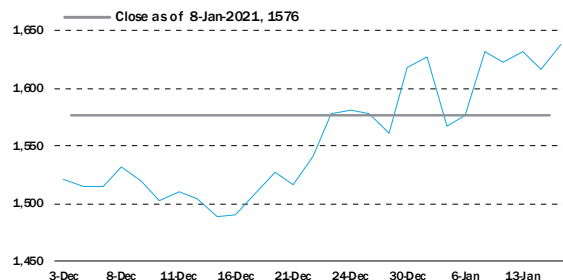
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1637	3.9%	1.2%
RTS	1474	0.5%	6.3%
WIG20	1985	-4.2%	-0.5%
MSCI EM	1358	0.4%	5.2%
S&P 500	3768	-1.5%	0.3%

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%	0.0 p.p.	+0.5 p.p.
Ukraine-2025	4.9%	0.1 p.p.	0.0 p.p.
Ukraine-2028	6.3%	0.2 p.p.	0.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.17	-0.3%	-0.4%
EUR/UAH	34.02	-2.2%	-2.1%

Source: Eavex Capital

US Hits Back Hard Against Derkach Over Biden Sabotage Efforts

by Will Ritter
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NEWS

The outgoing administration of US President Trump last week imposed asset sanctions against 7 Ukrainian individuals and 4 media companies associated with MP Andrey Derkach in response to Derkach's role in publicizing audiotapes of conversations between former US Vice President Joseph Biden and former Ukrainian President Petro Poroshenko. The targets of the sanctions include high-level prosecutor Constantine Kulyk, fugitive former MP Olexander Onyschenko, and current People's Servant MP Olexander Dubinskiy. The sanctions, which were rolled out by Secretary of State Michael Pompeo and Treasury Secretary Steven Mnuchin, identified Derkach as leading a Russian-directed attempt to interfere in US politics by aiding Trump's campaign to defeat Biden and thus win re-election. Biden ultimately defeated Trump in the November vote after corruption exposes against him promised by Derkach and Onyschenko failed to materialize. Biden is due to take office on Wednesday (Jan 20). Derkach himself was previously hit by personal sanctions in September after it was reported that he had been mailing information packets on Biden containing Russian disinformation to Trump-friendly members of the US Congress. Derkach was elected to Parliament from a district in Sumy province as a non-party-affiliated candidate.

COMMENTARY

The imposition of these sanctions shows that Trump, who was the beneficiary of Derkach's operations, is no longer influencing policy in the final weeks of his administration, as Pompeo and Mnuchin would have lost their positions for taking this step earlier. Derkach is viewed as being the Kremlin's mouthpiece of choice to attack the 2020 Biden campaign after the successful Russian operations against Hillary Clinton in 2016 that helped Trump reach the White House. The surprising name on the sanctions list is Dubinskiy, a young ally of industrialist Igor Kolomoyskiy who is a member of President Zelenskiy's People's Servant faction. It reflects poorly on the Zelenskiy administration that Derkach and his propaganda machine were allowed to operate undisturbed for so long in Ukraine without facing any domestic investigations or consequences; this fits the pattern of Zelenskiy's rather passive, hands-off approach to leading the state. However, we do expect some belated action against Derkach and his collaborators from Ukrainian law enforcement now that Biden has won the US presidency, as Zelenskiy will be keen to start off relations with the new administration in Washington on a positive note.

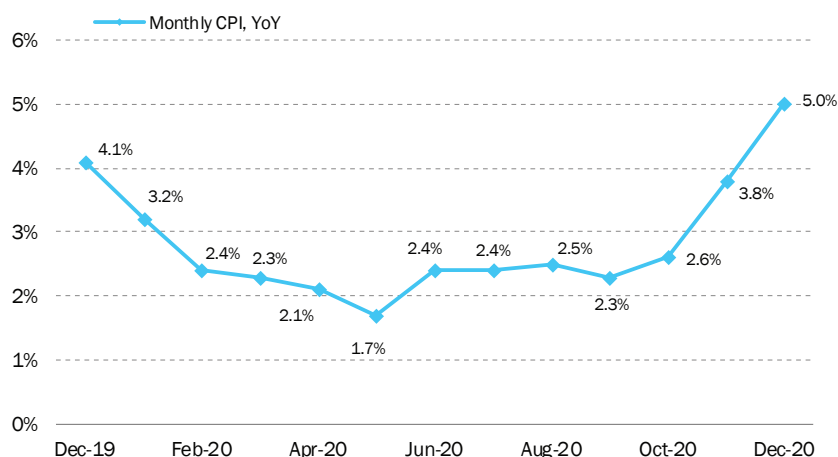
Ukraine Full-Year 2020 Inflation Comes In at 5.0%

by Dmitry Churin
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NEWS

Full-year 2020 consumer inflation in Ukraine was reported at 5.0%, which was in line with the National Bank's latest forecast, according to official data from the State Statistics Committee (UkrStat) published last week. For December alone, the reported CPI rise was 0.9% MoM.

UKRAINE'S ROLLING 12-MONTH CPI & PPI INFLATION



Source: State Statistics Committee

COMMENTARY

The 5.0% full-year inflation figure comes in line with the National Bank's monetary policy target, after a pickup late in the year from 12-month inflation that had been running as low as 2% prior to the autumn. Although the CPI accelerated in December, we expect that the NBU will keep its key refinancing rate unchanged at 6.0% at the scheduled policy meeting this Thursday (Jan 21).

Currently the government sees CPI inflation at 7.3% for full-year 2021. This is substantially below our own forecast of 10.5%, which we see as being driven by the ongoing global rally in soft commodity prices.

As for the December CPI data, there was a 1.4% MoM increase in heating service prices. The full-year increase in the natural gas price for households was 56% as energy prices shot up across the board in 2H20. The higher gas price for households has already become a political issue in the country, with opposition parties calling for lower household gas prices from the 100% state owned NaftoGaz. Ukrainian Cabinet members had a meeting with the IMF dedicated to gas tariffs, as linking the tariffs to world prices with a market-based approach has long been a key requirement for the IMF support program. A year ago, President Zelenskiy promised to reduce gas and heating tariffs, but as it turned out, the heating price increased this winter after costs for imported gas rose sharply. Zelenskiy personally and the ruling People's Servant party have both taken a hit as a result.

Ferrexpo's 2020 Output Increases by 7% YoY to 11.2mn Tonnes

by Dmitry Churin
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FERREXPO (FXPO LN)

Price: GBp 330 Market Cap: USD 2,622mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020E	1.6	1.8	6.2	4.6	7.4%
2021E	1.3	1.5	5.1	3.8	5.8%

NEWS

Poltava-based, London-listed iron ore producer Ferrexpo, Ukraine's most actively traded public company, reported that its full-year 2020 iron ore pellet output grew by 7.0% YoY to 11.2mn tonnes, according to the company's operational update released on Jan 12. For the fourth quarter, output advanced by 22% QoQ to 3.1mn tonnes. The higher production in 4Q was attributed to the ramp-up of the company's concentrator expansion project. The output of top-value-added 65 percent Fe and 67 percent Fe pellets represented 99% of total pellet production in 2020, rising from the 96% seen in 2019.

FERREXPO PRODUCTION FIGURES

000' tonnes	3Q20	4Q20	Change QoQ	2019	2020	Change YoY
Total Pellets Produces	2,537	3,084	+22%	10,519	11,218	+7%
- 67% Fe pellets	-	153	-	-	339	-
- 65% Fe pellets	2,537	2,931	+16%	10,116	10,780	+8%
- 62% Fe pellets	-	-	-	403	98	-76%

Source: Companies' data

COMMENTARY

Ferrexpo did not unveil any financial results for FY20, except to say that its net cash position stood at USD 4mn as of Dec 31 compared to a net debt position of USD 282mn as of the end of 2019. Separately, Ferrexpo reported that its sales volume in 2020 rose by 18% YoY to 12.1mn tonnes, thanks to accumulated iron ore inventories from 2019.

Iron ore prices climbed back up to near-decade highs of USD 170 per tonne for 62-percent grade pellets after customs data showed record-breaking imports by China, which forges more steel than the rest of the world combined. The steelmaking raw material has already enjoyed 8% gains in 2021 after a stunning 80% rise last year, and the benchmark price is nearing its all-time high of USD 190 reached in February 2011. However, we believe that iron ore prices have more or less peaked, and that there is not much scope for further increase. Moreover, there is a high probability of a price correction in the coming weeks.

The London-listed FXPO stock has risen by 11% to GBp 330 since the start of the year. Eavex Capital has a SELL recommendation for the FXPO stock with a target price of GBp 280 per share. The company is scheduled to report its full-year financial results on Mar 17.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	52.8	65.0	23%	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	6.1	11.5	89%	BUY	<p>Although MHP's business has 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	34.5	27.0	-22%	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	5.30	12.0	126%	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	330	280	-15%	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	192	270	41%	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	25.5	–	–	U/R	
JKX Oil & Gas	JKX LN	37.3	–	–	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	8.00	15.00	88%	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	0.430	0.33	-23%	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	1637	3.9%	1.2%								
Iron Ore Mining												
Ferrexpo	FXPO	330	-5.7%	11.1%	2622	2796	24.0%	6.2	5.1	4.9	4.1	1.6
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	8.2	-0.4%	-0.4%	122	119	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	192	2.7%	1.1%	367	355	3.0%	neg	16.2	1.2	5.8	0.4
Enwell Energy (ex-Regal)	ENW	25.5	-5.6%	20.3%	110	56	21.6%	36.8	12.3	2.2	1.9	0.9
JKX Oil	JKX	37.3	13.9%	24.2%	86	195	50.4%	21.6	12.3	7.0	5.7	2.3
Power Utilities												
Centrenergo	CEEN	8.00	6.7%	11.1%	104	102	21.7%	neg	60	15.3	7.0	0.1
Donbasenergo	DOEN	23.00	0.0%	15.0%	19	18	14.2%	8.6	6.9	2.1	2.2	0.1
Consumer												
MHP	MHPC	6.10	-2.9%	1.3%	645	1801	34.1%	neg	5.4	4.4	4.0	0.9
Kernel	KER	52.80	7.3%	7.1%	1,119	2136	61.8%	9.5	3.2	4.8	3.4	0.5
Astarta	AST	34.50	16.2%	31.7%	229	404	37.0%	27.8	21.8	3.3	3.0	0.8
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	5.30	12.8%	21.0%	31	20	25.0%	15.3	12.2	1.9	2.2	0.6
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.430	4.9%	4.9%	931		1.8%	6.0	7.4	1.9	1.9	0.24

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																
Centrenerg	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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