

Stock Market Update

Equity

Ukrainian stocks remained on the rise last week, with the UX index posting a 2.7% gain to 1681 points. In individual names, CentrErgo (CEEN) added 3.8% to UAH 8.30, ignoring information that the company faces problems with its coal supplies. CentrErgo accused the DTEK conglomerate of contract violations regarding coal delivery volumes and pricing.

Raiffeisen Bank Aval (BAVL) advanced by 7.0% to end at 46.00 kopecks as market players are hoping for a generous dividend of 6.15 kopecks from the bank's FY20 profit. Quotes for UkrNafta (UNAF) were flat at UAH 192 per share. In second tier stocks, railcar producer Krukiv Wagon (KVBZ) moved up by 5.6% to UAH 19.00.

In recent developments around Motor Sich (MSICH), whose shares have been locked since April 2018, Chinese investors have filed a USD 3.5bn arbitration case against Ukraine for blocking their ownership of the company. By some estimates, the Chinese group has consolidated about 75% of Motor Sich's shares.

On the London Stock Exchange, iron ore miner Ferrexpo (FXPO) lost 5.5% to GBP 312 in the second straight week of correction for the stock after its long run of gains. MHP (MHPC) added 2.6% to USD 6.26 ahead of the company's operational update due on Jan 28.

Warsaw-listed Kernel (KER) picked up 3.4% to PLN 54.60 and Astarta (AST) climbed by 1.4% to PLN 35.00. Sporadically-traded Agroton (AGT) jumped 35% to PLN 7.20 without an obvious driver.

The hryvnia was unchanged against the dollar over the week, closing at 28.16 UAH/USD on Friday. The National Bank's decision to hold the key refinancing rate at 6.0% was broadly expected by the market. However, the consensus expectation is that the key rate will be raised by at least 150 bps to 7.5% later this year.

Highlights

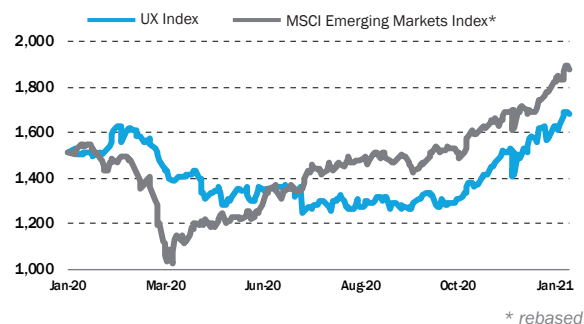
POLITICS AND ECONOMICS

- Ukraine's Kuleba Offers Support for Navalny, Calls Him 'Enemy of Our Enemy'
- Ukraine Posts Full-Year 2020 Industrial Output Decline of 5.2%

STOCKS IN THE NEWS

- Kernel Sets All-Time Seed-Crushing High with 1M Tonnes Processed in Oct-Dec

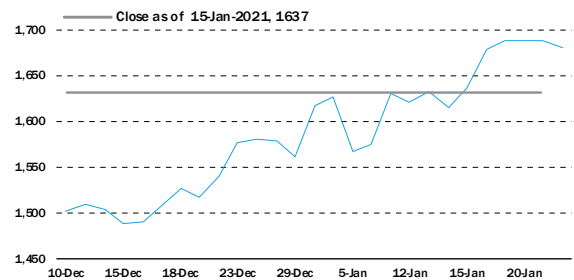
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1681	2.7%	4.0%
RTS	1418	-3.8%	2.2%
WIG20	1952	-1.7%	-2.1%
MSCI EM	1392	2.5%	7.8%
S&P 500	3840	1.9%	2.2%

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	4.7%	-0.2 p.p.	-0.2 p.p.
Ukraine-2028	6.3%	0.0 p.p.	0.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.16	0.0%	-0.4%
EUR/UAH	34.27	0.7%	-1.4%

Source: Eavex Capital

Ukraine's Kuleba Offers Support for Navalny, Calls Him 'Enemy of Our Enemy'

by Will Ritter
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NEWS

Foreign Minister Dmytro Kuleba expressed support for anti-government protests that have broken out in Russia following the arrest of opposition leader Alexey Navalny, who was detained at Moscow's main airport on Jan 17 after arriving from Germany. Tens of thousands of Russians in Moscow and other cities have come out into the streets in recent days to protest the Kremlin's latest move against Navalny, who has built the largest opposition following in Russia based on his anti-corruption research projects. In remarks to a domestic TV outlet on Sunday (Jan 24), Kuleba said, "there is a saying: the enemy of my enemy is my friend... in fact, the Russians have come out not in defense of Navalny, but in defense of themselves. But he is [Russian President] Putin's enemy, so we support the freedom of Navalny and all the people who stand for that freedom". However, Kuleba also criticized Navalny for his previous remarks stating that the annexed province of Crimea will not be returned to Ukraine, adding "We should also not be infatuated with Navalny, from the point of view of Ukraine's interests".

COMMENTARY

Having to deal with Alexey Navalny on the issue of Crimea instead of with the Putin regime would be, quite simply, a very good problem for Ukraine to have. The 2014 annexation of Crimea is extremely popular in Russia, and publicly taking the position that the province should be returned to Kyiv's control is politically untenable for Navalny. However, Navalny has acknowledged that the seizure of the province was a gross violation of international law. We suppose that Navalny returned to Russia with the advance knowledge that he would be arrested, and deliberately timed his return to coincide with the change of power in Washington, where Joseph Biden replaced the more Putin-friendly Donald Trump on Jan 20. Indeed, the timing seems to have been effective, resulting in the largest anti-Putin protests since 2011 and attracting substantial Western media attention. Nonetheless, it remains difficult to envision a path by which Navalny could supplant Putin, either by election or revolution, as Russia's leader in the immediate future.

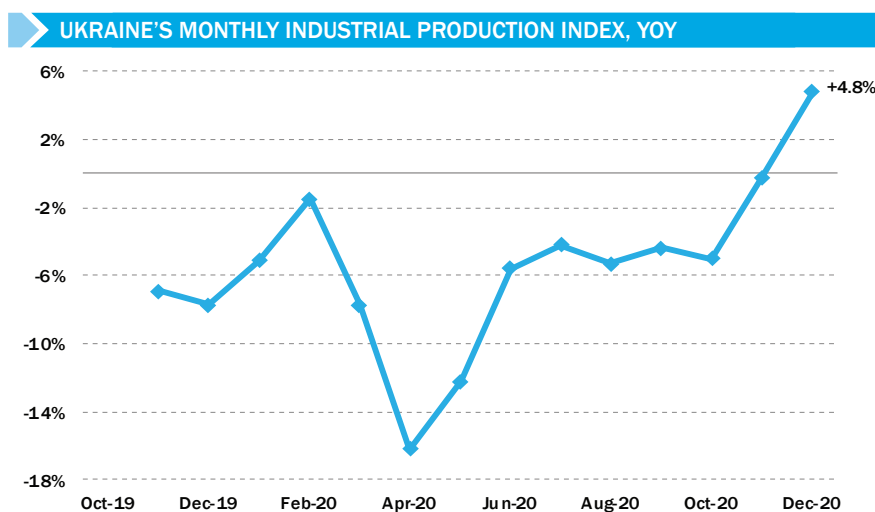
Ukraine Posts Full-Year 2020 Industrial Output Decline of 5.2%

by Dmitry Churin
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NEWS

The State Statistics Committee (UkrStat) reported on Jan 22 that Ukraine's industrial output (as measured by UkrStat's IP index) declined by 5.2% YoY in full-year 2020. Previous years' performances were a decrease of 1.8% YoY in 2019 and a rise of 1.1% in 2018. The manufacturing sector had a drop of 6.9% YoY in 2020 after a decline of 2.0% seen in 2019, the extraction sector had a 3.1% drop, and the utility sector saw an output contraction of 1.3% YoY. In a separate report, UkrStat said that retail sales increased by 8.4% YoY in full-year 2020, slowing only slightly from 10.5% YoY growth seen in full-year 2019.

Ukraine's overall agricultural output slipped by 11.5% after a rise of 1.1% YoY in 2019.



Source: State Statistics Committee

COMMENTARY

The industrial production decline for full-year 2020 was not as bad as expected, after the output figures for November and December improved significantly. The IP index advanced by 4.8% YoY in December, mainly due to a solid production increase in the beaten-down electrical equipment sector (+33% YoY) and an extraction ramp-up in the iron ore sector (+20% YoY). Also, the December data from UkrStat confirmed a recovery in the heavyweight steel industry (+4.3% YoY).

For 2021, our base case scenario foresees a 2.7% YoY increase in Ukrainian industrial output. We also forecast a slowing, but still-healthy, 6.5% YoY growth in Ukraine's red-hot retail sales this year, and a moderate 3.2% YoY rise in agricultural production. We assume that overall economic recovery in Ukraine will be driven by both the demand for Ukrainian raw materials on export markets and monetary stimulus, with more affordable bank financing for businesses. Although UAH interest rates for small and medium size business in the country stood at 18% on average, which is obviously high compared to interest rates in other emerging economies, such loan rates in Ukraine now are notably lower than in previous years, when they were in the range of 20-25%.

Kernel Sets All-Time Seed-Crushing High with 1M Tonnes Processed in Oct-Dec

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 54.60 Market Cap: USD 1,190mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY20	0.8	0.5	10.1	5.0	2.9%
FY21E	0.6	0.5	3.4	3.6	2.9%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and exporter, reported that its sunflower and soybean oil sales volume grew by 23% YoY to 425,000 tonnes in the Oct-Dec quarter and that grain exports rose by 6% YoY to 2.39mn tonnes in the period (2Q21 in the company's July-to-June reporting calendar), according to an operational update published on Jan 21. In other key business segments, Kernel also demonstrated strong operational results. Seed-crushing volume increased by 5% YoY at 1.0mn tonnes in the Oct-Dec quarter and export terminal throughput rose 41% YoY to 2.38mn tonnes in the period. The half-year operational results were the following: vegetable oil sales grew by 11% YoY to 722,000 tonnes in July-December 2020 and grain export volume rose by 16% YoY to 4.52mn tonnes.

KERNEL OPERATIONAL UPDATE

Volume	2Q FY20	2Q FY21	Change	1H FY20	1H FY21	Change
Grain exports, tonnes	2,262,727	2,395,343	+6%	3,883,678	4,520,993	+16%
Vegetable oil sales, tonnes	346,461	425,341	+23%	647,926	721,582	+11%
Oilseed crush, tonnes	950,986	1,001,292	+5%	1,579,712	1,663,905	+5%
Export terminals throughput, tonnes	1,692,237	2,382,860	+41%	2,887,420	4,251,453	+47%

Source: Companies' data

COMMENTARY

The figure of 1.0mn seeds processed in the Oct-Dec quarter represents the company's new historical record. The result was achieved thanks to the launch of sunflower seed tolling operations on a third-party-owned oilseed processing plant in Kharkiv province. The processing capacity of Kernel's own crushing plants was fully utilized during the reporting period. Meanwhile, an increase of 23% YoY in edible oil sales volume was mainly attributed to a low comparison base from a year earlier. The high-margin retail segment of bottled sunflower oil sales accounted for 9.1% of total sales volume in the Oct-Dec quarter.

In the grain business, Kernel's farming division secured 48% of supplies for the company's exports, while 52% of grain came from external suppliers.

Kernel's operational update was cheered by the market, with the KER stock adding 3.4% last week to close at PLN 54.60. Increased volume sales coupled with the rally in soft commodities prices should translate into hefty profits for Kernel. The company is due to publish its 2Q21 financial results on Feb 26. We estimate that Kernel's net profit doubled in a year-on-year comparison to USD 80mn in the Oct-Dec quarter.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.6	65.0	19%	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	84%	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	35.0	27.0	-23%	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	7.20	12.0	67%	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	312	280	-10%	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	22.4	--	--	U/R	
JKX Oil & Gas	JKX LN	29.5	--	--	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	8.30	15.00	81%	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	0.460	0.33	-28%	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	1681	2.7%	4.0%								
Iron Ore Mining												
Ferrexpo	FXPO	312	-5.5%	5.1%	2498	2494	24.0%	5.9	4.9	4.4	3.6	1.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	5.6%	5.6%	77	51	5.0%	9.1	14.8	3.9	5.1	0.3
Specialized Machinery												
Turboatom	TATM	8.5	3.4%	3.0%	128	124	3.8%	6.6	8.9	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	398	396	24.0%	12.6	17.0	3.9	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	192	0.0%	1.1%	370	358	3.0%	neg	16.3	1.2	5.9	0.4
Enwell Energy (ex-Regal)	ENW	22.4	-12.2%	5.7%	98	43	21.6%	32.6	10.9	1.7	1.4	0.7
JKX Oil	JKX	29.5	-20.8%	-1.7%	69	177	50.4%	17.2	9.8	6.3	5.2	2.1
Power Utilities												
Centrenergy	CEEN	8.30	3.8%	15.3%	109	107	21.7%	neg	62	16.0	7.3	0.2
Donbasenergo	DOEN	23.00	0.0%	15.0%	19	18	14.2%	8.7	6.9	2.1	2.3	0.1
Consumer												
MHP	MHPC	6.26	2.6%	4.0%	661	1817	32.5%	neg	5.5	4.4	4.0	0.9
Kernel	KER	54.60	3.4%	10.8%	1,157	2174	61.8%	9.8	3.3	4.9	3.5	0.5
Astarta	AST	35.00	1.4%	33.6%	233	408	37.0%	28.2	22.2	3.4	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	7.20	35.8%	64.4%	41	31	25.0%	20.7	16.6	2.9	3.4	1.0
Banks												
Raiffeisen Bank Aval	BAVL	0.460	7.0%	12.2%	1,005		1.8%	6.4	8.0	2.0	2.0	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		
		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																
Centrenergy	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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