

Stock Market Update

Equity

Quotes for Kyiv-listed equities declined last week amid the shaky behavior of the major global stock markets, with the broad S&P500 index falling 3.3% in the period. The pan-continental Stoxx Europe 600 index and most major Asian benchmarks were also notably in the red. In Ukraine, the UX index shed a moderate 1.0% for the week to close at 1665 points on Friday. Electricity producer CentrEnergO (CEEN) dropped by 3.6% to UAH 8.00, correcting back a bit from its impressive rally seen since November. UkrNafta (UNAF) and Raiffeisen Bank Aval (BAVL) lost 1.0% and 2.2% respectively, with the latter finishing at 45.00 kopecks per share. On the upside, DonbasEnergO (DOEN) added 4.3% to UAH 24.00.

In political news, Ukraine once again appeared in the worldwide headlines after new US President Joseph Biden, among other issues, discussed the problem of Russian aggression in Ukraine during his first call with President Putin. The long list of topics for Biden's first conversation with Putin indicates the complicated state of relations between Washington and Moscow that has been left over from the previous administration. Biden has often accused his predecessor Donald Trump of being too soft on Russia.

In London trading, companies with main assets in Ukraine were broadly lower, with Ferrexpo (FXPO) giving up 9.6% to close at GBP 286 and MHP (MHPC) slipping 4.2% to USD 6.00. MHP's report that its poultry sales volume rose by 10% YoY in 4Q20 appeared to have a neutral impact on the stock.

Warsaw-listed Kernel (KER) sat unchanged at PLN 54.60 while Astarta (AST) surged 12% to PLN 39.30 after the company posted a 33% YoY growth in sugar volume sales in 4Q20 amid a 37% YoY jump in the average price in the period. Agroton (AGT) managed to hold its recent gains, edging down just 0.6% to PLN 7.16. The frequently-volatile AGT stock has shot up by 63% since the start of the year.

On the currency front, the hryvnia remained inactive, hovering in a narrow corridor near 28.15 UAH/USD for the third straight week.

Highlights

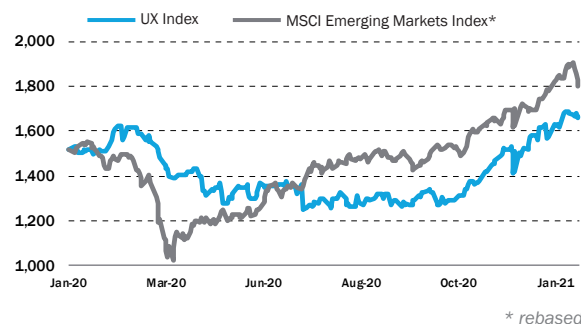
POLITICS AND ECONOMICS

- > Motor Sich Quagmire Heats Up as Zelenskiy Slaps Sanctions on China's Skyrizon

STOCKS IN THE NEWS

- > MHP Posts Full-Year Poultry Sales Volume Rise of 4% for 2020

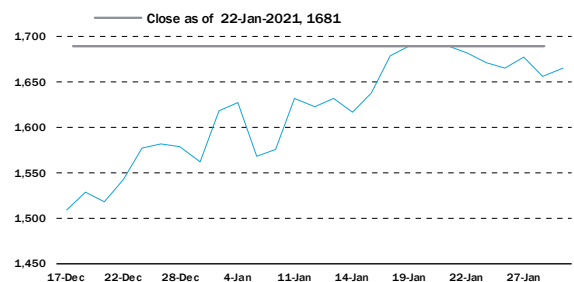
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1665	-1.0%	3.0%
RTS	1370	-3.4%	-1.2%
WIG20	1964	0.6%	-1.5%
MSCI EM	1329	-4.5%	2.9%
S&P 500	3714	-3.3%	-1.1%

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	11.8%/11.3%	-0.2 p.p.	+0.3 p.p.
Ukraine-2025	4.9%	0.2 p.p.	0.0 p.p.
Ukraine-2028	6.4%	0.1 p.p.	0.1 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.15	0.0%	-0.4%
EUR/UAH	34.19	-0.2%	-1.6%

Source: Eavex Capital

Motor Sich Quagmire Heats Up as Zelenskiy Slaps Sanctions on China's Skyrizon

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NEWS

The long-running dispute surrounding the ownership of Zaporizhia-based aircraft engine maker Motor Sich escalated last week, as President Zelenskiy attended a meeting of the National Security & Defense Council (RNBO) on Jan 29 at which Ukraine placed economic sanctions against Chinese firm Skyrizon Aviation and its chief executive Jing Wang that are to remain in place for 3 years. Then on Sunday, when representatives of Skyrizon and its Ukrainian partner, Kharkiv-based oligarch Alexander Yaroslavskiy, attempted to convene a Motor Sich shareholder meeting in Zaporizhia on Jan 31, the event was broken up by agents of the Ukrainian Security Service (SBU). The SBU justified its intervention by stating that Skyrizon is planning "the destruction of the production facilities of the company". Motor Sich, formerly Ukraine's most actively traded domestic equity issue, had its shares frozen in April 2018 after Skyrizon had reportedly acquired a controlling stake in the company from longtime CEO and majority owner Viacheslav Boguslaev. However, Skyrizon was then unable to consolidate the purchase amid reported opposition from the Trump administration in the US. Skyrizon has filed a USD 3.5bn arbitration claim against Ukraine for blocking its ownership of the company.

COMMENTARY

The Trump administration appeared to be strongly fixated on preventing the Chinese acquisition of Motor Sich, with President Trump sending one of his top political allies, Eric Prince, on several visits to Ukraine in 2019 to front a counter-offer for the company, but nothing came of it. We assume that the current escalation of this dispute is related to the change in administration in the US, with President Biden possibly pressing Zelenskiy, who up to now has been quite passive on the issue of Motor Sich's future, to play a more direct and public role. Motor Sich became a highly controversial company after the 2014 EuroMaidan revolution, as it continued, under the leadership of its pro-Russian owner Boguslaev, to sell aircraft engines to the Russian military even as Ukraine and Russia were fighting an active war in the Donbass region. A ban against such sales was introduced by the Poroshenko administration but was not strictly enforced. The Chinese investment in Motor Sich was initially seen as a way for the company to enter new markets before the US opposition emerged when Trump took office in 2017. We note that it was the outgoing Trump administration - not the new Biden administration - that blacklisted Skyrizon on Jan 14, calling it "a threat to US national security".

The latest developments seem to indicate a deepening of the multi-sided conflict, and we are unable to predict when trading in the MSICH stock - which has a substantial free float - might finally resume. The MSICH stock has the last trading price of UAH 5,469 per share on the Ukrainian Exchange back in April 2018. The accounting standards forced portfolio investors to write-off a value of MSICH shares with the value will recover to some level after the shares to be unfrozen for circulation.

MHP Posts Full-Year Poultry Sales Volume Rise of 4% for 2020

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 6.00 Market Cap: USD 665mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020E	0.6	0.9	neg	5.1	4.7%
2021E	0.5	0.9	5.5	4.6	4.7%

NEWS

London-listed, central-Ukraine-based MHP (MHPC) reported that its poultry sales volume increased by 4% YoY to 698,000 tonnes in full-year 2020, according to the company's operational update issued on Jan 28. MHP also reported that its poultry exports rose 5% YoY to some 373,700 tonnes in full-year 2020, accounting for 54% of total sales volume, marginally up from a share of 53% a year before. In 4Q20 alone, MHP's sales volume rose by 10% YoY to 174,300 tonnes. The company said its production facilities operated at full capacity in the quarter. On the pricing side, MHP's average achieved sales price for poultry declined by 9% YoY in USD terms in 2020 to USD 1.34 per kg net of VAT.

MHP's sunflower oil segment demonstrated a 14% YoY decrease in sales to 330,800 tonnes in 2020, with all of the sales being exports. The grain segment showed a total harvest of 1.7mn tonnes of crops, which was 30% less than in FY19. MHP operates a land bank of 356,000 hectares in Ukraine. The company's harvest was hit badly by hot weather conditions in the final weeks of the growing season, leading to significantly lower yields across most crops compared to 2019.

MHP OPERATIONAL UPDATE

Poultry	4Q19	4Q20	Change	2019	2020	Change
Sales volume, tonnes	158,624	174,260	+10%	669,865	698,020	+4%
Domestic	70,972	79,551	+12%	312,541	324,286	+4%
Export	87,651	94,709	+8%	357,324	373,734	+5%
Price USD per 1 kg net VAT	1.43	1.36	-5%	1.47	1.34	-9%

Source: Companies' data

COMMENTARY

Although MHP's operational update looks fairly solid, the company has no real opportunity to impress the market with its full capacity usage, as its production facilities have already been operating at full capacity for many years. In general, there is more room for MHP to disappoint minority shareholders with a small sales volume drop, than there is to cheer them up with yet another new historical poultry production record. In fact, MHP did notably disappoint on the crop side, with a slump in its crop harvest of 30% YoY, badly underperforming Ukraine's nationwide 12% YoY decrease in its grain harvest to 65.4mn tonnes.

In regard to the upcoming 4Q20 financials, we forecast that MHP will report EBITDA of USD 28mn, bringing the full-year 2020 EBITDA to USD 360mn (-4.3% YoY). On the bottom line, MHP is expected to post a net loss of USD 150mn for FY20 due to non-cash foreign exchange translation losses amid the hryvnia's 16% devaluation against the dollar last year. For 9M20, the company had reported an EBITDA of USD 332mn and a net loss of USD 109mn. MHP's full-year 2020 financial results are due to be announced on Mar 24.

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	6.0	11.5	92%	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	39.3	27.0	-31%	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	7.16	12.0	68%	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	280	-1%	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	190	270	42%	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	22.5	--	--	U/R	
JKX Oil & Gas	JKX LN	29.3	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	24.0	--	--	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	0.450	0.33	-27%	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	1665	-1.0%	3.0%								
Iron Ore Mining												
Ferrexpo	FXPO	282	-9.6%	-5.1%	2257	2253	24.0%	5.4	4.4	4.0	3.3	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	0.0%	5.6%	77	51	5.0%	9.1	14.8	3.9	5.1	0.3
Specialized Machinery												
Turboatom	TATM	8.5	0.0%	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	190	-1.0%	0.0%	366	354	3.0%	neg	16.2	1.2	5.8	0.4
Enwell Energy (ex-Regal)	ENW	22.5	0.2%	5.9%	98	44	21.6%	32.6	10.9	1.7	1.5	0.7
JKX Oil	JKX	29.3	-0.8%	-2.5%	68	177	50.4%	17.1	9.8	6.3	5.2	2.1
Power Utilities												
Centrenergy	CEEN	8.00	-3.6%	11.1%	105	103	21.7%	neg	60	15.4	7.0	0.2
Donbasenergy	DOEN	24.00	4.3%	20.0%	20	19	14.2%	9.1	7.2	2.2	2.4	0.1
Consumer												
MHP	MHPC	6.00	-4.2%	-0.3%	634	1790	32.5%	neg	5.3	5.0	4.5	0.9
Kernel	KER	54.60	0.0%	10.8%	1,166	2183	61.8%	9.9	3.3	4.9	3.5	0.5
Astarta	AST	39.30	12.3%	50.0%	263	438	37.0%	31.9	25.1	3.6	3.2	0.8
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	7.16	-0.6%	63.5%	42	32	25.0%	20.8	16.6	2.9	3.4	1.0
Banks												
Raiffeisen Bank Aval	BAVL	0.450	-2.2%	9.8%	983		1.8%	6.3	7.8	2.0	2.0	0.25

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	360	396	18.3%	18.5%	19.0%	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			11.8%	11.3%	n/a	n/a	S/A	17 Nov 2021	
UA4000203236			11.8%	11.3%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.2%	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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