

Stock Market Update

Equity

The Ukrainian Exchange index (UX) rose by a solid 6.0% to 1765 points last week amid optimism regarding a recovery in business activity after some of the winter COVID quarantine measures were lifted in late January. However, mass events with the participation of more than 20 persons are still prohibited through the end of February.

In individual stocks, UkrNafta (UNAF) surged by 5.3% to UAH 200 after the company's majority shareholder NaftoGaz ordered preparations for UkrNafta's formal division. The move is expected to allow NaftoGaz to concentrate 100% ownership in UkrNafta's natural gas business segment.

Quotes for CentrEnergy (CEEN) advanced by 9.4% to UAH 8.75 despite the company's ongoing shortage of coal inventories. The state industry regulator admitted a crisis situation in electricity production in the country. Currently Ukraine is forced to import electricity from Belarus during the peak hours of electricity consumption.

Raiffeisen Bank Aval (BAVL) climbed 1.1% to 45.50 kopecks and quotes for DonbasEnergy (DOEN) were flat at UAH 24.00.

London-listed MHP (MHPC) edged up by 1.0% to USD 6.06, Ferrexpo (FXPO) added 5.3% to GBp 297, and JKC Oil&Gas (JKX) advanced by 8.5% to GBp 31.75.

In Warsaw trading, Kernel (KER) gained more clearance from the thorny PLN 50 resistance line, adding 3.5% to PLN 56.50, and Astarta (AST) continued its impressive rise, picking up 10.4% to finish at PLN 43.40, the stock's highest level since 2018.

The hryvnia appreciated by 1.5% against the dollar to 27.74 UAH/USD as increased grain exports provided support for the national currency. Meanwhile, the National Bank reported that its foreign reserves declined by about USD 300mn to USD 28.8bn in January, primarily due to repayments on external and domestic public debt.

Highlights

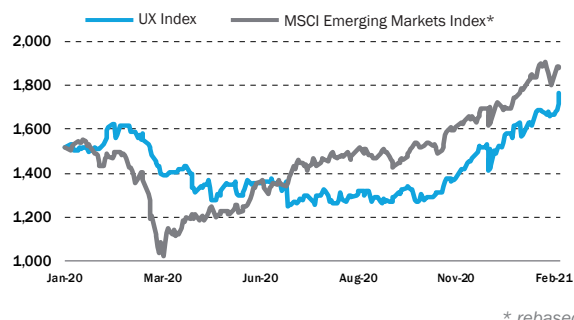
POLITICS AND ECONOMICS

- Zelenskyy's Shutdown of Pro-Russian Media Appears Politically Successful

STOCKS IN THE NEWS

- Kolomoyskiy's USD 6bn UkrNafta Claim Against Ukraine Dismissed in Stockholm

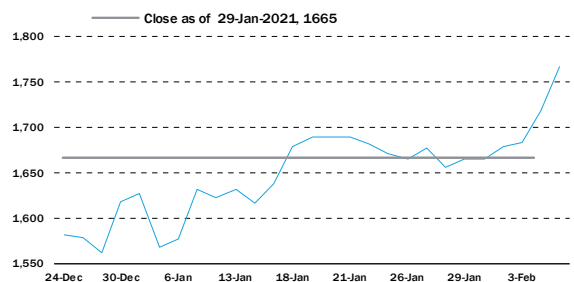
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1765	6.0%	9.2%
RTS	1432	4.5%	3.2%
WIG20	1958	-0.3%	-1.8%
MSCI EM	1395	5.0%	8.1%
S&P 500	3887	4.7%	3.5%

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	11.6%/10.8%	-0.2 p.p.	+0.1 p.p.
Ukraine-2025	4.6%	-0.3 p.p.	-0.3 p.p.
Ukraine-2028	6.0%	-0.4 p.p.	-0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.74	-1.5%	-1.9%
EUR/UAH	33.32	-2.5%	-4.1%

Source: Eavex Capital

Zelenskiy's Shutdown of Pro-Russian Media Appears Politically Successful

by Will Ritter
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NEWS

President Zelenskiy last week followed a recommendation of the National Security & Defense Council (RNBO) to force the closure of 3 television stations that were deemed to be pro-Russian and hostile to Ukraine's state interests. The stations, controlled by longtime pro-Russian politician Victor Medvedchuk, are 112, ZIK, and NewsOne. Although the outlets were forced off of television airwaves, they continue to operate their internet and social media sites. The decision to shut the television stations for 5 years received the support of several Western countries, including the US and Canada.

COMMENTARY

However legally questionable the closure of these television stations is, we have to admit that in political and ethical terms, Zelenskiy seems to be on quite solid ground, given the ongoing hybrid attacks of the Russian state and its billionaire oligarch allies not only against Ukraine, but against Western civilization generally. Zelenskiy's move was certainly influenced by the recent decision of the world's largest social media companies to ban former US President Donald Trump from their platforms amid Trump's incessant campaign of untruths and incitements against the US government. Importantly, in naked political terms, shutting down Medvedchuk's media has the potential to restore Zelenskiy's standing with the pro-Ukrainian electorate, with whom his numbers have been slipping badly over the last half-year. Of course, Zelenskiy will also correspondingly lose some support from southeastern Ukraine, but ever since he entered politics, Zelenskiy has always demonstrated confidence that he is capable of holding on to a large share of the Russophone electorate regardless of what pro-Western positions he takes. We start to see elements of a re-election strategy here in selling Zelenskiy as leader who, though he lacks competence in the nuts-and-bolts of governing, is a patriot whose heart is in the right place.

Kolomoyskiy's USD 6bn UkrNafta Claim Against Ukraine Dismissed in Stockholm

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 200 Market Cap: USD 390mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020E	0.9	0.2	1.7	1.3	n/a
2021E	0.9	0.4	17.3	6.2	n/a

NEWS

Ukraine's Justice Minister Dennis Malyuska said that an arbitration case against the Ukrainian government filed by UkrNafta's minority shareholders for a total amount exceeding USD 6.0bn has been thrown out. The Justice Minister said that the Stockholm Arbitration court has rejected the case, six years after its initial filing. UkrNafta's minority shareholders led by industrialist Igor Kolomoyskiy owning a 41% stake in the company were attempting to get compensation from the Ukrainian government for the steep hike in the oil and gas production tax back in 2014. These shareholders, which are affiliated with Kolomoyskiy's Privat Group, had also demanded compensation for losing part of their operational control over UkrNafta after Parliament lowered the quorum for shareholders meetings from 60% to 50%+1 share (also in 2015).

In related news, UkrNafta's majority shareholder, the state energy operator NaftoGaz, took an initial step toward split UkrNafta, the country's largest oil producer, into separate natural gas and oil divisions. NaftoGaz CEO Andriy Kobolev ordered UkrNafta's supervisory board to prepare the terms and timing of the company's division.

COMMENTARY

In our view, both of these news items are positive for the UNAF stock, as ending the Ukrainian state's disadvantageous partnership with Kolomoyskiy is a long overdue move. The resolution of UkrNafta's corporate conflict between the Ukrainian government and Kolomoyskiy via a formal division of the company into two separately-owned entities should clear the way for a fair evaluation of UkrNafta's business. However, there are no details about how the division will be performed, or about which side of the division small shareholders are likely to end up on. It is obvious that the division will need to be voted on at a shareholder meeting, and small shareholders will thus have the legally mandated option to sell their stakes after voting against any decision of so-called 'considerable operation with assets'. We believe that any proper valuation of UkrNafta before the company's division will show a value much higher than the company's current market capitalization of USD 390mn on the Ukrainian Exchange. The UNAF stock has a last listing price of UAH 200 per share. Taking into account that in December UkrNafta settled its tax arrears and now has no debt burden, its assets consisting of upstream and downstream components offer a hefty upside for the UNAF stock. With these positive expectations for the company's near future, we are raising our target price for UNAF from UAH 270 to UAH 350 per share, implying an upside of 75%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	56.5	65.0	15%	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	90%	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	43.4	--	--	U/R	<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	7.10	12.0	69%	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	280	-6%	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	200	350	75%	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	22.6	--	--	U/R	
JKX Oil & Gas	JKX LN	31.8	--	--	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	8.75	15.00	71%	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	0.455	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	1765	6.0%	9.2%								
Iron Ore Mining												
Ferrexpo	FXPO	297	5.3%	0.0%	2395	2391	24.0%	5.7	4.7	4.2	3.5	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	0.0%	5.6%	79	52	5.0%	9.2	15.0	4.0	5.2	0.3
Specialized Machinery												
Turboatom	TATM	8.5	0.0%	3.0%	129	126	3.8%	6.7	9.1	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	404	402	24.0%	12.8	17.3	3.9	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	200	5.3%	5.3%	391	379	3.0%	neg	17.3	1.3	6.2	0.4
Enwell Energy (ex-Regal)	ENW	22.6	0.7%	6.6%	99	45	21.6%	33.1	11.0	1.7	1.5	0.7
JKX Oil	JKX	31.8	8.5%	5.8%	75	183	50.4%	18.7	10.7	6.5	5.4	2.2
Power Utilities												
Centrenergo	CEEN	8.75	9.4%	21.5%	117	115	21.7%	neg	67	17.2	7.8	0.2
Donbasenergo	DOEN	24.00	0.0%	20.0%	20	19	14.2%	9.2	7.3	2.3	2.4	0.1
Consumer												
MHP	MHPC	6.06	1.0%	0.7%	640	1796	32.5%	neg	5.3	5.0	4.5	0.9
Kernel	KER	56.50	3.5%	14.6%	1,204	2221	61.8%	10.2	3.4	5.0	3.6	0.5
Astarta	AST	43.40	10.4%	65.6%	290	465	37.0%	35.1	27.6	3.8	3.4	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	7.10	-0.8%	62.1%	41	31	25.0%	20.6	16.5	2.8	3.4	0.9
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.455	1.1%	11.0%	1,009		1.8%	6.5	8.0	2.1	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																
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	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	9,653
UA4000204556			11.6%	10.8%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			11.6%	10.8%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			12.0%	11.3%	n/a	n/a	S/A	11 May 2022	12,917
UA4000201255			12.5%	11.7%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.0%	12.0%	n/a	n/a	S/A	26 Feb 2025	41,080
UAH denominated Bonds									
UA4000211114			4.0%	3.0%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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