

## Stock Market Update

### Equity

News that the IMF monitoring mission for Ukraine's current loan program ended without a positive result was unable to stop the early-2021 rally in Kyiv-listed stocks. The UX index added 1.4% last week to close at 1789 points, with the gain for the gauge reaching 10% since the start of the year.

The biggest advance was seen in UkrNafta (UNAF), which shot up 12% to UAH 224 per share on expectations that the company will report a massive profit for 4Q20 after getting huge payments from its parent NaftoGaz. Raiffeisen Bank Aval (BAVL) rose 3.3% to 47.00 kopecks despite the bank's net profit of 6.63 kopecks per share for FY20 coming in about 10% lower than expected. CentrEnergO (CEEN) slowed its increase to 0.6% after rising 22% YtD, ending at UAH 8.80. In second division stocks, Krukiv Wagon (KVBZ) grew by 5.3% to UAH 20 on the nose.

On the London Stock Exchange, Ferrexpo (FXPO) demonstrated a firm rebound after its notable correction earlier this month. The FXPO stock surged by 7.7% back to GBp 320, after the benchmark iron ore price dropped from USD 170 per tonne to USD 150 and then bounced back to USD 160 in a 2-week period. MHP (MHPC) remained sluggish, slipping 2.3% to USD 5.92.

In Warsaw trading, Kernel (KER) edged down by 0.9% to PLN 56.00 while Astarta (AST) rallied further by 7.6% to PLN 46.70. The AST stock has been a star performer, gaining 78% in the past 6 weeks on better prospects for the company's primary sugar market.

On the currency front, the hryvnia weakened by 0.6% to 27.90 UAH/USD. The National Bank said it purchased USD 110mn to increase its forex reserves during the week.

## Highlights

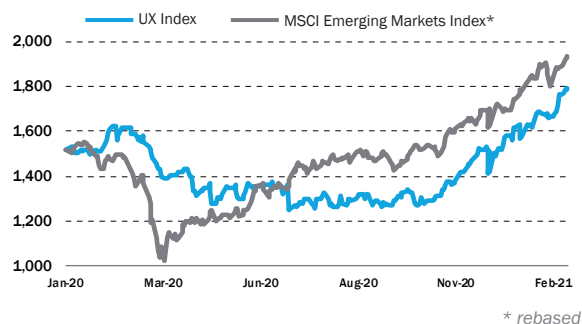
### POLITICS AND ECONOMICS

- > Vitrenko Defends Gas Pricing as Ukraine Heads for Coldest Month Since 2012
- > Ukraine Headline Inflation Back up to 6% Amid Rising Commodity, Energy Prices

### STOCKS IN THE NEWS

- > Raiffeisen Aval Posts Solid USD 150mn Profit for FY20 (6.6 Kopecks per Share)

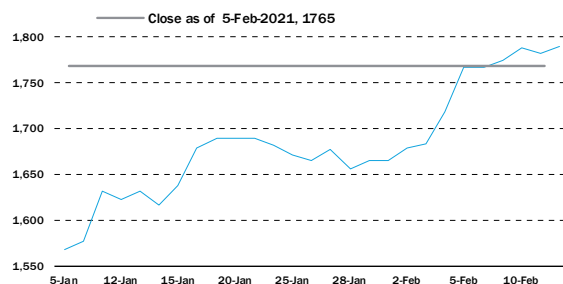
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
UX	1789	1.4%	10.6%
RTS	1462	2.1%	5.4%
WIG20	1937	-1.1%	-2.9%
MSCI EM	1429	2.4%	10.7%
S&P 500	3935	1.2%	4.8%

### 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	11.6%/10.8%	+0.1 p.p.	+0.2 p.p.
Ukraine-2025	4.6%	0.0 p.p.	-0.3 p.p.
Ukraine-2028	6.0%	0.0 p.p.	-0.3 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.90	0.6%	-1.3%
EUR/UAH	33.73	1.2%	-2.9%

Source: Eavex Capital

## Vitrenko Defends Gas Pricing as Ukraine Heads for Coldest Month Since 2012

by Will Ritter  
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### NEWS

Acting Energy Minister Yuriy Vitrenko defended Ukraine's free market residential natural gas pricing and the targeted subsidy system in comments made in an interview with Radio Svoboda and published in the Ukrayinska Pravda news outlet on Sunday (Feb 14). The current winter has seen the highest prices for residential heating in Ukraine's history after global natural gas prices jumped in the autumn of 2020, and citizen demonstrations have been held to demand that domestically-produced natural gas be provided to residential users at its reported production cost of UAH 2.6 per cubic meter, which is around 3x cheaper than the prevailing market price for gas. Vitrenko promised that domestic gas would not be exported, but he defended charging residential users the market price (around UAH 7 per cubic meter), stating that revenues from the market price are necessary in order for the government to fund targeted heating subsidies to the lowest-income citizens. Ukraine's national residential heating network appears to be holding up amid an extended run of below-average winter temperatures that are expected to drop to minus 20 Celsius in many areas, including Kyiv, this week. Current weather forecasts indicate that February will likely be the coldest month, and also the month with the highest snowfall total, seen in Ukraine since December 2012.

### COMMENTARY

After many consecutive winters with above-average temperatures, it was a given that eventually Ukraine's weather luck would run out, creating a spike in fuel consumption. Fortunately, it appears that the government and Naftogaz's management accumulated gas in storage during last summer and autumn to appropriate levels, and that a gas crisis like the one seen during the winter of 2005-06 is not imminent. However, the cold weather, and particularly the heavy snowfall, could have a detrimental effect on the country's first-quarter GDP number, given that weather was not really a factor in last year's comparison base. In addition, some COVID quarantine restrictions are still slowing the economy compared to 1Q20. We think that Vitrenko's ability and willingness to publicly explain the logic and importance of Ukraine's switch to a liberalized natural gas market is one of the reasons why he is seen as a rising star in Ukrainian politics.

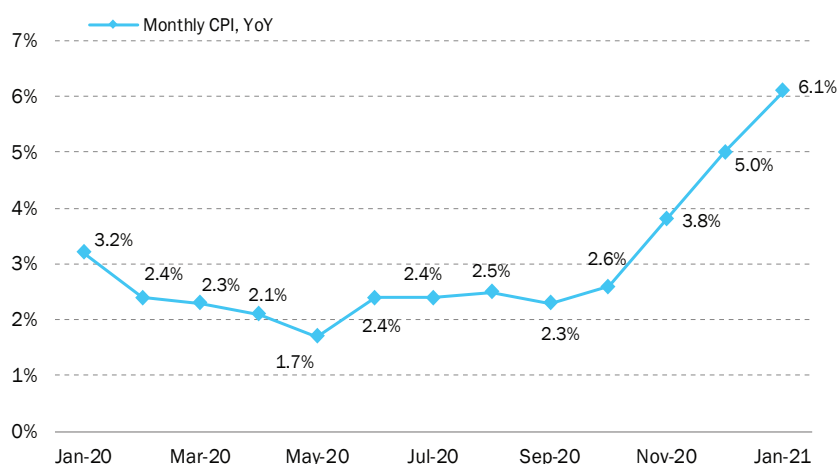
## Ukraine Headline Inflation Back up to 6% Amid Rising Commodity, Energy Prices

by Dmitry Churin  
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### NEWS

Rolling 12-month consumer inflation in Ukraine accelerated to 6.1% in January from 5.0% in December, according to State Statistics Committee data published earlier this month. January's CPI increase on a month-on-month basis was a notable 1.3% in the period, coming on the back of a 1.4% rise in food prices. In other CPI basket components, prices for footwear and clothes dropped by 4.0% MoM while utility service prices advanced by 6.0% MoM.

#### UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

### COMMENTARY

The increased pace of consumer inflation was an expected development, primarily due to higher global prices for soft commodities which translated into higher food prices across the board. There was also a one-time hike of 37% YoY in January for regulated household electricity prices.

On a 12-month comparison basis, food prices grew by 5.9% YoY and utility service prices rose by 18.4% YoY, while prices for clothes fell by 5.7% YoY.

The government of Prime Minister Dennis Shmygal currently forecasts that the CPI inflation will be 7.3% YoY for full-year 2021. We think that inflation could easily to accelerate into low double digits, taking into account the current rally in energy prices and an expected eventual devaluation from the recent-months exchange rate that has prevailed near 28 UAH/USD to below the 29 UAH/USD level.

## Raiffeisen Aval Posts Solid USD 150mn Profit for FY20 (6.6 Kopecks per Share)

by Dmitry Churin  
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### RAIFFEISEN BANK AVAL (BAVL)

Price: UAH 0.47 Market Cap: USD 1,036mn

	P/Assets	P/Book	P/E	Div. Yield
2020	0.26	2.3	6.9	13%
2021E	0.26	2.4	8.2	11%

## NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Austria-based Raiffeisen International, posted a net profit of UAH 4.07bn (USD 151mn at the annualized exchange rate) for full-year 2020 (-14% YoY), implying earnings per share of 6.63 kopecks, according to data released by the National Bank last week.

On the balance sheet side, Raiffeisen Aval's loan portfolio decreased by 2.8% YoY to UAH 46.0bn, while its total assets grew by an impressive 37% YoY to UAH 113bn (USD 3.95bn), mainly as a result of revaluations of the bank's bond portfolio.

### RAIFFEISEN BANK AVAL FINANCIALS

UAH mn	4Q19	4Q20	YoY chg.	2019	2020	YoY chg.
Gross interest income	2691	2310	-14.2%	9972	9504	-4.7%
Net interest income	1860	1771	-4.8%	7173	7272	+1.4%
Net income	1245	954	-23.4%	4749	4075	-14.2%
	31 Dec 2019	31 Dec 2020	YoY chg			
Loan portfolio	47352	46015	-2.8%			
Equity	13016	12892	-1.0%			
Total assets	82786	113628	+37.3%			

Source: Company data.

## COMMENTARY

Raiffeisen Aval's reported net profit for 4Q20 implies an EPS of 1.55 kopecks, which was 12% lower than our forecast of 1.75 kopecks EPS. Nonetheless, the EPS of 6.63 kopecks per share for FY20 gives grounds to expect that the bank will distribute 5.96 kopecks in dividends, as 90% of the profit was paid out last year; Raiffeisen International, which owns a majority of 68% of the bank's outstanding shares, has in recent years established a clear policy of repatriating most of its Ukrainian profits via dividends. The BAVL stock has a current price of 47 kopecks, meaning that the expected dividend yield is a very impressive 13%.

In more details, Raiffeisen Aval's gross interest income decreased by 14% YoY to UAH 2.31bn in 4Q20 and by 4.7% YoY to UAH 9.5bn for FY20, while net interest income declined by 4.8% YoY to UAH 1.77bn in 4Q20 and climbed by 1.4% YoY to UAH 7.3bn for FY20. We think that gross interest income decreased due to both lower interest rates for loans and the bank's weak ability to attract new clients, as it follows a very conservative lending policy. Meanwhile, deposit rates for clients were declining faster than credit rates, leading to additional net interest income for Raiffeisen Aval in 2020.

Although the bank saw a moderate decline in its net profit last year, it still demonstrated a superior return-on-equity of 31% for FY20. We continue to view the bank's balance sheet as healthy, with an estimated equity-to-asset ratio of 11.1% at the start of this year. On the other hand, Raiffeisen Aval's equity-to-asset ratio decreased significantly from the level of 14% seen at the start of 2020. This fact could create difficulties ahead of the dividend distribution, as the dividend payment should not lead to a violation of the mandatory minimal capital adequacy ratio, although we expect Raiffeisen Aval's Austrian parent group to successfully manage the situation. We forecast that for full-year 2021, Raiffeisen Aval's net profit will come in about 10% lower than in 2020 at UAH 3.6bn, which would imply earnings per share of 5.85 kopecks.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	56.0	65.0	16%	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	5.9	11.5	94%	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	46.7	--	--	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	7.30	12.0	64%	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>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	320	280	-13%	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>
<b>Specialized Machinery</b>						
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>
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	224	350	56%	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	23.7	--	--	U/R	
JKX Oil & Gas	JKX LN	29.0	--	--	U/R	
<b>Power Utilities</b>						
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	8.80	15.00	70%	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>
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.470	0.33	-30%	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 5.96 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	1789	1.4%	10.6%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	320	7.7%	7.7%	2581	2577	24.0%	6.1	5.1	4.5	3.8	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.0	5.3%	11.1%	82	56	5.0%	9.6	15.7	4.2	5.6	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	8.5	0.0%	3.0%	129	126	3.8%	6.6	9.0	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	401	400	24.0%	12.7	17.2	3.9	4.5	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	224	12.0%	17.9%	435	423	3.0%	neg	19.2	1.4	6.9	0.5
Enwell Energy (ex-Regal)	ENW	23.7	4.9%	11.8%	104	50	21.6%	34.7	11.6	1.9	1.7	0.8
JKX Oil	JKX	29.0	-8.7%	-3.3%	68	177	50.4%	17.0	9.7	6.3	5.2	2.1
<b>Power Utilities</b>												
Centrenergo	CEEN	8.80	0.6%	22.2%	117	115	21.7%	neg	67	17.2	7.8	0.2
Donbasenergo	DOEN	24.00	0.0%	20.0%	20	19	14.2%	9.1	7.3	2.2	2.4	0.1
<b>Consumer</b>												
MHP	MHPC	5.92	-2.3%	-1.7%	626	1782	32.5%	neg	5.2	4.9	4.5	0.9
Kernel	KER	56.00	-0.9%	13.6%	1,203	2220	61.8%	10.2	3.4	5.0	3.6	0.5
Astarta	AST	46.70	7.6%	78.2%	315	490	37.0%	38.1	30.0	4.0	3.6	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	7.30	2.8%	66.7%	43	33	25.0%	21.3	17.1	3.0	3.5	1.0
<b>Banks</b>												
											Price/Book	Price/Assets
Raiffeisen Bank Aval	BAVL	0.470	3.3%	14.6%	1,036		1.8%	6.9	8.2	2.3	2.4	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	4019	3925	550	456	438	280	271	249	185	151	126	33.6%	33.2%	28.9%

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
<b>UAH denominated Bonds</b>									
UA4000195176			11.5%	10.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			11.5%	10.8%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			11.6%	11.0%	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
<b>UAH denominated Bonds</b>									
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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