

Stock Market Update

Equity

The UX index continued its 2021 rally last week, gaining 4.1% to 1862 points. UkrNafta (UNAF) remained the primary contributor to the gauge's growth. The UNAF stock advanced by 8.0% to UAH 242 as local traders now believe that the company is on the way to a positive transformation after it settled its production tax debt dispute with the government. Raiffeisen Bank Aval (BAVL) rose 8.5% to 51.00 kopecks after the bank surprised with an impressive net profit of UAH 764mn for January alone, which implies EPS of 1.24 kopecks. On the other hand, we do not think that Raiffeisen Aval can generate the same profit every month, as its net profit in December was UAH 80mn and UAH 347mn in November. Quotes for CentrEnergog (CEEN) edged down by 1.1% to UAH 8.70 per share.

On the macroeconomic front, UkrStat reported that Ukraine's population decreased by about 314,000 people to 41.6mn in 2020. A total number of 293,457 births were recorded in Ukraine last year, compared to 308,817 in 2019.

London-listed poultry producer MHP (MHPC) inched down by 0.3% to USD 5.92 while Ferrexpo (FXPO) surged by 9.4% to GBP 350 on expectations that the company will post solid financial results for FY20. Publication of the results is due on Mar 17.

In Warsaw trading, most Ukrainian agro stocks saw a correction as traders took some profits after the firm rise since the start of the year. Astarta (AST) dropped by 7.3% to PLN 43.30 on clear profit taking, and Kernel (KER) declined by 1.8% to PLN 55.00. Small-cap name Agroton (AGT) fell 4.4% to PLN 6.98 per share.

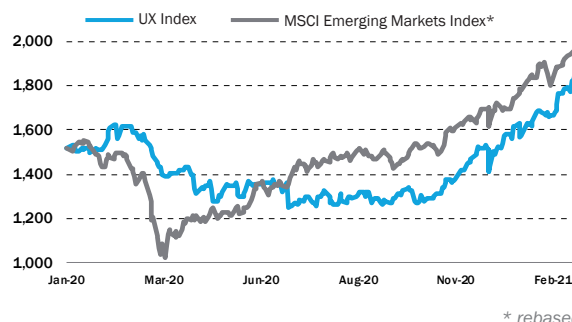
On the interbank currency market, the hryvnia was stable over the week, closing virtually unchanged at 27.87 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy, RNBO Hit Medvedchuk with Asset Freezes
- > Ukraine's GDP Down 0.7% YoY in 4Q, Implying 4.2% Full-Year Drop

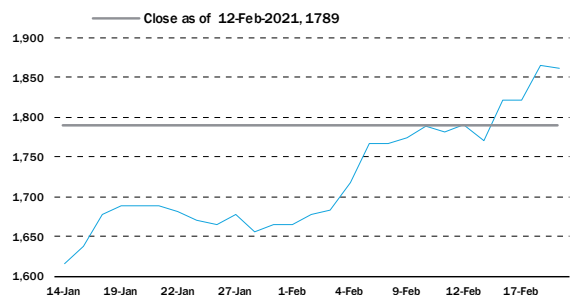
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1862	4.1%	15.2%
RTS	1472	0.7%	6.1%
WIG20	1985	2.5%	-0.5%
MSCI EM	1430	0.1%	10.8%
S&P 500	3906	-0.7%	4.0%

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	11.5%/10.8%	-0.1 p.p.	+0.1 p.p.
Ukraine-2025	4.9%	0.3 p.p.	0.0 p.p.
Ukraine-2028	6.3%	0.3 p.p.	0.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.87	-0.1%	-1.4%
EUR/UAH	33.78	0.1%	-2.8%

Source: Eavex Capital

Zelenskiy, RNBO Hit Medvedchuk with Asset Freezes

by Will Ritter
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NEWS

Ukraine's National Security & Defense Council (RNBO) last week announced a wave of domestic economic sanctions against oligarch-politician Victor Medvedchuk, who has long been accused of being the main representative of Kremlin interests in Ukraine. President Zelenskiy then signed the order. Head of the RNBO Oleksiy Danilov said the penalties against Medvedchuk, his wife, and 7 other people are being imposed based on investigations by the Ukrainian Security Service (SBU) that proved the individuals are involved in "terrorist activity" related to the occupied Donbass territories. Separately, the SBU also charged pro-Russian politician Anatoliy Shariy with anti-state activities last week; as expected, Shariy, a wealthy expatriate who is based in Spain, did not appear for questioning. Medvedchuk heads the largest opposition party in Ukraine, the Opposition Platform, while Shariy heads a smaller movement which bears his own name.

COMMENTARY

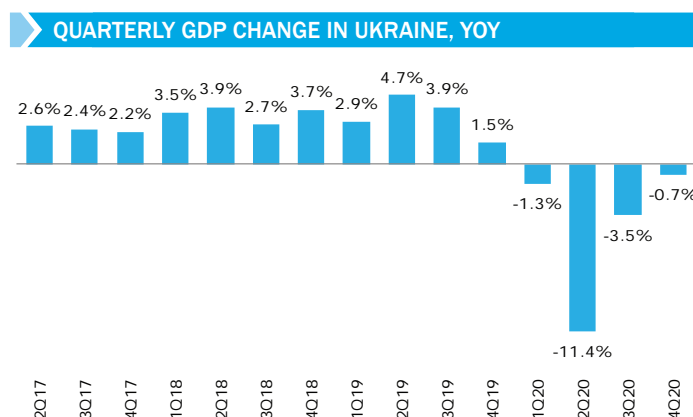
Medvedchuk has been under US sanctions for helping Russia to undermine Ukrainian statehood since the start of the Donbass war in 2014, but paradoxically he continued to operate his businesses inside Ukraine more or less as usual during the presidency of Petro Poroshenko, of whom he was seen as a situational political ally. However reviled he might be by pro-Ukrainian ideologues, Medvedchuk's presence in the country's politics has simply been a fact of life for more than 20 years, from the time when he headed the presidential administration of Leonid Kuchma. Whether Zelenskiy really has the clout and the resolve to enforce these measures against Medvedchuk is an open question, we think. Medvedchuk currently controls a large interest in Ukraine's lucrative petroleum gas market, and pushing him out via sanctions is likely to benefit Zelenskiy's former patron Igor Kolomoyskiy, himself a reviled figure in the West who is under investigation by US law enforcement. In any case, this public offensive by Zelenskiy (using the most powerful state bodies under his control, the SBU and the RNBO) against Medvedchuk and Shariy, whether real or symbolic, appears to be designed to reverse Zelenskiy's declining popularity with Ukraine's national-patriotic electorate, where he will need to find a floor of support in order to win a second term in office. With the election 3 years away, no clear challengers to Zelenskiy have yet emerged.

Ukraine's GDP Down 0.7% YoY in 4Q, Implying 4.2% Full-Year Drop

by Dmitry Churin
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NEWS

Ukraine's gross domestic product declined by 0.7% YoY in 4Q20 after the drops of 3.5% YoY seen in 3Q20 and 11.4% YoY in 2Q20, according to preliminary data from the State Statistics Committee (UkrStat) published on Feb 15. The data also showed that the country's seasonally-adjusted GDP grew by 0.8% on a quarterly basis in the period. UkrStat has not provided its assessment for the full-year 2020 GDP growth figure yet, with the report due on Mar 22. However, the preliminary 4Q figure implies that the full-year GDP drop was 4.2%.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The 4Q GDP number comes in somewhat better than expected. We attribute the increased pace of economic recovery to the improvement in the Ukrainian metallurgical sector, with both production volumes and prices rising in the second half of last year. Moreover, the government tried to prop up the economy by launching a massive infrastructure renovation, including 4,000 km of roads built and repaired, which was a record high achievement in Ukraine's modern history. UkrStat reported that the index for infrastructure construction advanced by 14.8% YoY last year. The overall construction index rose by 4.0% YoY in the period with infrastructure construction contributing near 60% of the index value.

The 4Q GDP performance provides more grounds to expect further recovery in the real sector this year. Currently we project that Ukraine's economy will grow by 4.0% in 2021.

The global economy is projected to rebound from the 2020 COVID-related slump by 5.5% in 2021 and 4.2% in 2022, according to the latest forecast prepared by the IMF. The 2021 forecast has been revised up by 0.3 p.p. relative to the previous forecast, reflecting expectations of a vaccine-driven strengthening of activity later in the year and additional policy support in a few large economies. The IMF estimated the global economic contraction for 2020 at -3.5%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	55.0	65.0	18%	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	95%	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	43.3	--	--	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	6.98	12.0	72%	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	350	280	-20%	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	242	350	45%	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	24.8	--	--	U/R	
JKX Oil & Gas	JKX LN	29.0	--	--	U/R	
Power Utilities						
DonbasEnergO	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>
CenterEnergO	CEEN	8.70	15.00	72%	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 CentrEnergO can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnergO 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	0.510	0.33	-35%	SELL	<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	1862	4.1%	15.2%								
Iron Ore Mining												
Ferrexpo	FXPO	350	9.4%	17.8%	2884	2880	24.0%	6.9	5.7	5.1	4.2	1.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	20.0	0.0%	11.1%	82	56	5.0%	9.6	15.7	4.2	5.6	0.3
Specialized Machinery												
Turboatom	TATM	8.5	0.0%	3.0%	129	126	3.8%	6.7	9.0	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	402	400	24.0%	12.7	17.2	3.9	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	242	8.0%	27.4%	471	459	3.0%	neg	20.8	1.6	7.5	0.5
Enwell Energy (ex-Regal)	ENW	24.8	4.4%	16.7%	111	57	21.6%	37.0	12.3	2.2	1.9	0.9
JKX Oil	JKX	29.0	0.0%	-3.3%	70	178	50.4%	17.4	10.0	6.4	5.2	2.1
Power Utilities												
Centrenergy	CEEN	8.70	-1.1%	20.8%	115	113	21.7%	neg	66	17.0	7.7	0.2
Donbasenergy	DOEN	24.00	0.0%	20.0%	20	19	14.2%	9.1	7.3	2.2	2.4	0.1
Consumer												
MHP	MHPC	5.90	-0.3%	-2.0%	623	1779	32.5%	neg	5.2	4.9	4.5	0.9
Kernel	KER	55.00	-1.8%	11.6%	1,181	2198	61.8%	10.0	3.4	5.0	3.5	0.5
Astarta	AST	43.30	-7.3%	65.3%	292	467	37.0%	35.3	27.8	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	6.98	-4.4%	59.4%	41	31	25.0%	20.4	16.3	2.8	3.3	0.9
Banks												
Raiffeisen Bank Aval	BAVL	0.510	8.5%	24.4%	1,125		1.8%	7.4	8.9	2.5	2.6	0.29

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	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
UAH denominated Bonds									
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			11.5%	10.8%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.8%	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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