

Stock Market Update

Equity

Kyiv-listed equities finished lower last week following a broad correction on the major global stock exchanges. The S&P500 index fell 2.5% and MSCI emerging market index was down by 6.4% over the week. The Ukrainian Exchange index (UX) corrected by 4.6%, ending at 1776 points.

The domestic news flow was dry and had no influence on local traders' sentiments. Raiffeisen Bank Aval (BAVL) lost 5.9% to 48.00 kopecks as the bank's valuation has reached a rather high level, with the P/B (Price to Book) ratio at 2.3x and P/E (Price to Earnings) hovering at 7.5x. Thermal generation company CentrEnergO (CEEN) dropped by 5.2% to UAH 8.25 per share as the country's electricity sector is suffering under systemic problems in the complex process of electricity pricing. The current crisis in the electricity market is a consequence of fundamental economic mistakes linked to arbitrary administrative interference in pricing. The industry has already accumulated a financial deficit of more than UAH 50bn (USD 1.8bn) since the launch of the new competitive market model in 2019 instead of the model based on a single wholesale operator. UkrNafta (UNAF) was also sharply lower, tumbling 9.1% to UAH 220.

In London trading, Ferrexpo (FXPO) dropped by 4.3% to GBp 335 and MHP (MHPC) edged down by 0.7% to USD 5.86.

Warsaw-listed Kernel (KER) slipped 0.5% to PLN 54.70, ignoring the company's strong earnings release for the Oct-Dec quarter, when the company saw its net profit jump by 3.2x to USD 128mn.

On the currency market, the hryvnia gave up 0.4% against the dollar over the week, closing at 27.98 UAH/USD.

Highlights

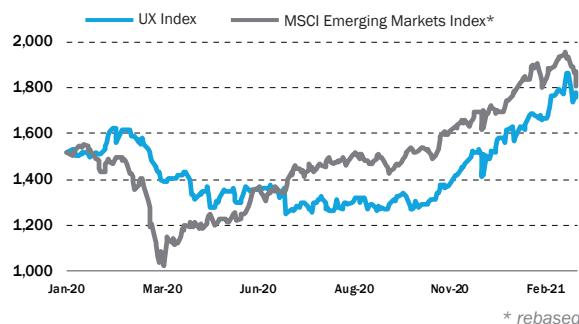
POLITICS AND ECONOMICS

- > Ukraine's January Industrial Output Down 4% YoY Amid Quarantine

STOCKS IN THE NEWS

- > Kernel Boosts EBITDA 2.5x YoY to USD 269mn in Oct-Dec Quarter

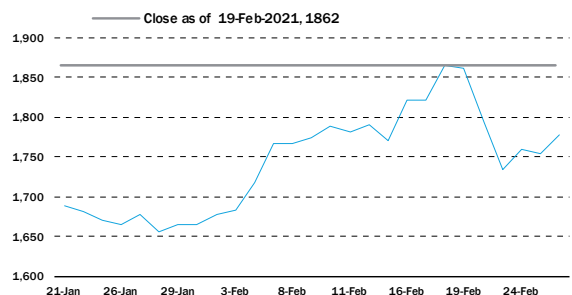
STOCK MARKET PERFORMANCE



MARKET INDEXES

| | Last | 1W ch | YTD |
|---------|------|-------|-------|
| UX | 1776 | -4.6% | 9.8% |
| RTS | 1411 | -4.1% | 1.7% |
| WIG20 | 1907 | -3.9% | -4.4% |
| MSCI EM | 1339 | -6.4% | 3.7% |
| S&P 500 | 3809 | -2.5% | 1.4% |

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 | 11.0%/10.5% | -0.3 p.p. | -0.2 p.p. |
| Ukraine-2025 | 5.3% | 0.4 p.p. | 0.4 p.p. |
| Ukraine-2028 | 6.7% | 0.4 p.p. | 0.4 p.p. |

CURRENCY

| | Last, UAH | 1W chg. | YTD |
|---------|-----------|---------|-------|
| USD/UAH | 27.98 | 0.4% | -1.0% |
| EUR/UAH | 33.92 | 0.4% | -2.4% |

Source: Eavex Capital

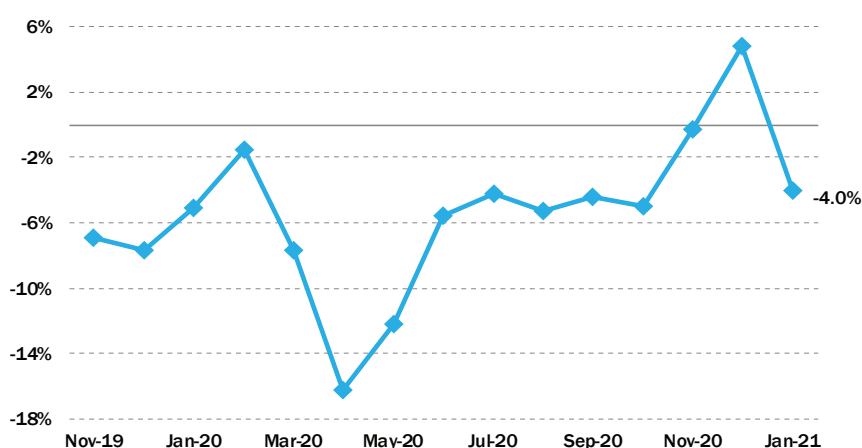
Ukraine's January Industrial Output Down 4% YoY Amid Quarantine

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine's industrial production dropped by 4.0% YoY in January after a rise of 5.0% YoY in December, the State Statistics Committee (UkrStat) reported last week. There was also a month-on-month unadjusted drop of 16.1% in January's industrial index as a result of the New Year holiday season. As has already been reported, Ukraine's overall industrial production for full-year 2020 showed a decrease of 5.2% after a decline of 1.8% in 2019 and a moderate increase of 1.1% seen back in 2018.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

We are assuming that the IP index drop in January was anomalous and not the sign of a new negative trend, as the holiday-period decline last month was compounded by strict anti-COVID quarantine measures for more than half the month. There was a clearly mixed picture in major sectors. The metallurgical sector showed a 3.9% YoY decline in January while the chemical industry had a surprising rise of 10% YoY. The aggregate decline in the extraction sphere was 3.0%, whereas utility sector production grew by 3.2% YoY due to colder weather conditions compared to the winter of last year. For February, we expect a return to positive industrial growth, although it should be noted that UkrStat's headline IP index figure will be distorted to the downside by 3%, as the agency historically has not corrected for the leap year day difference.

In other key economic statistics, UkrStat reported that retail sales volume increased by 3.5% YoY in January, indicating rather surprisingly that the COVID quarantine lockdown had only a marginally negative effect on the retail figures. The agro sector's output index was down by 5.7% YoY in the first month of the year.

Kernel Boosts EBITDA 2.5x YoY to USD 269mn in Oct-Dec Quarter

by Dmitry Churin
d.churin@eavex.com.ua

KERNEL (KER PW)

Price: PLN 54.70 Market Cap: USD 1195mn

| | 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 | 3.2 | 3.6 | 2.9% |

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, boosted its EBITDA by 2.5x YoY to USD 269mn in the 2Q21 Oct-Dec quarter (the company's financial year runs from July to June). According to the company's consolidated financial statement published on Feb 26, net revenue rose by 29% YoY to USD 1.33bn in the period and net profit soared by 3.2x YoY to USD 128mn. For the 6 months ending in December, Kernel had revenue of USD 2.27bn (+20% YoY), EBITDA of USD 559mn (+2.6x YoY), and net profit of USD 332mn (+3.3x YoY).

On the balance sheet side, Kernel's net debt amounted to USD 1.25bn as of 31 December 2020, implying a Net Debt/EBITDA ratio of 1.6x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 0.5x.

KERNEL FINANCIAL RESULTS

| USD mn | 2Q FY20 | 2Q FY21 | YoY | 1H FY20 | 1H FY21 | YoY |
|---------------|---------|---------|-----------|---------|---------|------------|
| Net revenue | 1,036 | 1,327 | +29% | 1,882 | 2,267 | +20% |
| EBITDA | 110 | 269 | +146% | 216 | 559 | +159% |
| EBITDA margin | 10.6% | 20.3% | +9.7 p.p. | 11.5% | 24.7% | +13.2 p.p. |
| Net Income | 41 | 128 | +215% | 100 | 332 | +232% |
| Net margin | 3.9% | 9.6% | +5.7 p.p. | 5.3% | 14.6% | +9.3 p.p. |

Source: Company data,

COMMENTARY

Kernel's reported net profit of USD 128mn for the Oct-Dec quarter exceeded our forecast of profit of USD 80mn for the period. We see that the company was able to improve its profitability significantly with an EBITDA margin widening by 9.7 p.p. to 20.3% for the quarter and the net margin increasing by 5.7 p.p. to 9.6%. For the half year, the net margin was higher at 14.6%, as historically the Oct-Dec quarter has been quite weak for Kernel in terms of financial results.

The KER stock, which has advanced by 11% since the start of the year, traded at PLN 54.70 on Friday. We estimate the stock's forward-looking P/E at 3.2x for FY21. Eavex Capital has a BUY recommendation for Kernel with a target price of PLN 65.00 per share. The company's Eurobonds with maturity in 2022 are quoted at 105.1 (3.1% YtM), while the Kernel-27s issue is valued at 108.0 (5.4% YtM).

EAVEX RECOMMENDATIONS

| Name | Ticker | Price, per share | Target price, per share | Upside, % | Rating | Commentary |
|------------------------------|---------|------------------|-------------------------|-----------|--------|--|
| Agriculture | | | | | | |
| Kernel | KER PW | 54.7 | 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 | 5.9 | 11.5 | 96% | 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 | 46.5 | -- | -- | 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 | 335 | 280 | -16% | 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 | 220 | 350 | 59% | 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 | 25.5 | -- | -- | U/R | |
| JKX Oil & Gas | JKX LN | 26.6 | -- | -- | 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 | 8.25 | 15.00 | 82% | 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 | 0.480 | 0.33 | -31% | 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 | 1776 | -4.6% | 9.8% | | | | | | | | |
| Iron Ore Mining | | | | | | | | | | | | |
| Ferrexpo | FXPO | 335 | -4.3% | 12.8% | 2761 | 2757 | 24.0% | 6.6 | 5.4 | 4.8 | 4.0 | 1.5 |
| 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 | 220 | -9.1% | 15.8% | 428 | 416 | 3.0% | neg | 18.9 | 1.4 | 6.8 | 0.4 |
| Enwell Energy (ex-Regal) | ENW | 25.5 | 2.8% | 20.0% | 114 | 60 | 21.6% | 38.1 | 12.7 | 2.3 | 2.0 | 1.0 |
| JKX Oil | JKX | 26.6 | -8.3% | -11.3% | 64 | 172 | 50.4% | 16.0 | 9.1 | 6.2 | 5.1 | 2.0 |
| Power Utilities | | | | | | | | | | | | |
| Centrenergy | CEEN | 8.25 | -5.2% | 14.6% | 109 | 107 | 21.7% | neg | 63 | 16.1 | 7.3 | 0.2 |
| Donbasenergo | DOEN | 24.00 | 0.0% | 20.0% | 20 | 19 | 14.2% | 9.1 | 7.3 | 2.2 | 2.4 | 0.1 |
| Consumer | | | | | | | | | | | | |
| MHP | MHPC | 5.86 | -0.7% | -2.7% | 619 | 1775 | 32.5% | neg | 5.2 | 4.9 | 4.5 | 0.9 |
| Kernel | KER | 54.70 | -0.5% | 11.0% | 1,162 | 2179 | 61.8% | 9.9 | 3.1 | 4.9 | 3.5 | 0.5 |
| Astarta | AST | 46.50 | 7.4% | 77.5% | 310 | 485 | 37.0% | 37.5 | 29.5 | 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 | 7.10 | 1.7% | 62.1% | 41 | 31 | 25.0% | 20.5 | 16.4 | 2.8 | 3.4 | 0.9 |
| Banks | | | | | | | | | | | | |
| Raiffeisen Bank Aval | BAVL | 0.480 | -5.9% | 17.1% | 1,059 | | 1.8% | 7.0 | 8.4 | 2.3 | 2.4 | 0.27 |

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 | | | | | | | | | | | | | | | | |
| Centrenergo | 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 | 370 | 4.8% | 2.9% | 8.2% |
| 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 | | | 10.0% | 8.5% | n/a | n/a | S/A | 11 Aug 2021 | 9,653 |
| UA4000204556 | | | 10.0% | 9.0% | n/a | n/a | S/A | 17 Nov 2021 | 11,923 |
| UA4000203236 | | | 11.0% | 10.5% | n/a | n/a | S/A | 05 Jan 2022 | 10,887 |
| UA4000204002 | | | 11.5% | 10.5% | 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% | 3.2% | n/a | n/a | S/A | 3 Feb 2022 | USD 347mn |

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: office@eavex.com.ua
Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board
yuriy.yakovenko@eavex.com.ua

SALES & TRADING

Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

Eugene Klymchuk
Fixed Income Sales and Trading
e.klymchuk@eavex.com.ua

RESEARCH

Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua