

Stock Market Update

Equity

Stocks listed on the local Ukrainian Exchange were mixed last week, with the UX index slipping by 0.5% to 1768 points due to a decline in heavyweight index basket member UkrNafta (UNAF) by 6.8% to UAH 205 per share. The UNAF stock took a hit after information that the company's key minority shareholder Igor Kolomoyskiy is being sanctioned by the United States due to his involvement in major corruption. Kolomoyskiy's reputation deteriorated after his PrivatBank had to be nationalized and bailed out in December 2016 due to the siphoning off of billions of dollars via insider loans. Kolomoyskiy is also accused of laundering hundreds of millions of dollars through US-based shell companies and real estate assets.

In other local blue chips, CentrEnergO (CEEN) gained 3.0% to UAH 8.50 after the State Property Fund once again reshuffled the company's top management and said that CentrEnergO finished last year with a marginal net profit of UAH 50mn, implying an EPS of 14 kopecks. Raiffeisen Bank Aval (B AVL) rose 3.1% to 49.50 kopecks, bouncing back after its correction seen at the end of February.

In Motor Sich (MSICH) related developments, Ukraine's ruling Servant of the People Party said it is considering an option to nationalize the aerospace giant. There is no understanding in what form the possible nationalization could occur, however. Currently Motor Sich shares are frozen by a court ruling issued back in 2018. The company came under pressure after Chinese investors bought a majority stake without agreeing this purchase with Ukraine's Anti-Monopoly Committee.

Ukrainian companies listed in London were mostly lower for the week. Poultry producer MHP (MHPC) shed 2.7% to USD 5.70 as investors have a skeptical view on MHP's plans to increase its presence on the Ukrainian retail market by opening small franchise meat shops. Ferrexpo (FXPO) edged down by 1.0% to GBp 332.

In Warsaw trading, Astarta (AST) fell 11% to PLN 41.50 amid ongoing profit-taking from the stock's big recent rise, and Agroton (AGT) dropped by 12% to PLN 6.28. Top liquid issue Kernel (KER) had a somewhat better performance, losing only 0.7% to close at PLN 54.30.

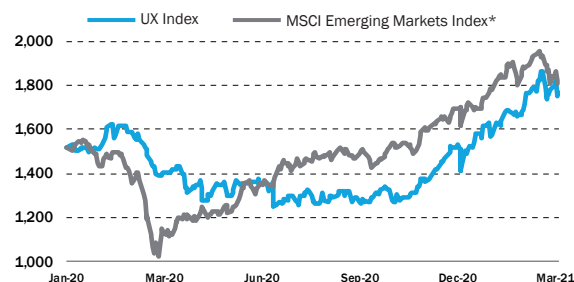
The hryvnia gained 0.8% to 27.77 UAH/USD after the National Bank raised its key interest rate to 6.5% from 6.0% on Mar 4.

Highlights

POLITICS AND ECONOMICS

- > Biden Unlikely to Block Completion of Nord Stream 2

STOCK MARKET PERFORMANCE

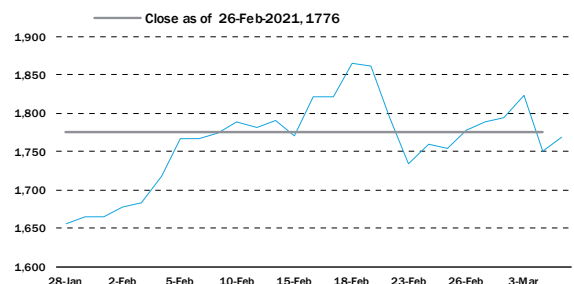


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1768	-0.5%	9.3%
RTS	1447	2.6%	4.3%
WIG20	1939	1.7%	-2.8%
MSCI EM	1339	0.0%	3.7%
S&P 500	3841	0.8%	2.3%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.5%	+0.5 p.p.	+0.5 p.p.
UAH 1-year bond	11.0%/10.5%	0.0 p.p.	-0.2 p.p.
Ukraine-2025	5.6%	0.3 p.p.	0.7 p.p.
Ukraine-2028	7.2%	0.5 p.p.	0.9 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.77	-0.8%	-1.8%
EUR/UAH	33.08	-2.5%	-4.8%

Source: Eavex Capital

Biden Unlikely to Block Completion of Nord Stream 2

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NEWS

The administration of new US President Joseph Biden appears to be leaning against taking drastic measures to try to prevent the completion of the so-called Nord Stream 2 natural gas pipeline running under the Baltic Sea between Russia and Germany, US news outlet Politico reported on Friday (Mar 5). The pipeline, which is 90-95% finished, is controversial in Ukraine because it would sharply reduce Russia's dependence on Ukraine's gas transit network. This network brings in around USD 2bn annually to the national budget via state-owned operator NaftoGaz. The US Congress has passed sanctions measures targeting the Russian-German initiative, but their implementation is the responsibility of the White House.

COMMENTARY

Although the recently-departed Trump administration had made a public show of opposing Nord Stream 2, threatening to sanction German companies involved in the project, we do not believe that Trump ultimately intended to prevent the pipeline from being built; we note that it was during Trump's term in office that the lion's share of work on the project occurred. Rather, Trump seemed to be trying to use the issue to tamp down persistent accusations that he was too friendly with the regime of Russian President Putin. Biden has stated his personal opposition to Nord Stream 2, calling it "a bad deal for Europe". However, it appears that the Biden administration's stance on the pipeline is going to be to leave the ball in the court of the German government, as Biden's foreign policy team is placing a high priority on repairing relations with EU allies and with Germany in particular. In our view, the amount of heavy lifting needed for Washington to stop the nearly-completed pipeline is probably not worth the diplomatic costs, and the more useful tack would be to make sure that Germany keeps its promise to continue to utilize Ukrainian gas transit at some minimum level. Kyiv is currently not in a position to demand large-scale favors from the Biden administration, and it has always been inevitable that the Kremlin would eventually find an alternate route to deliver its energy to lucrative Western European markets; in fact, we would argue that Ukraine has been fortunate to hold onto its transit monopoly for as long as it has - nearly 30 years. The new reality after Nord Stream 2 comes on line is likely going to be that Ukraine will simply have to adjust and compete for gas transit customers as best it can.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.3	65.0	20%	BUY	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. 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 (+2.3x 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.
MHP	MHPC LI	5.7	11.5	102%	BUY	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.
Astarta	AST PW	41.5	--	--	U/R	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.
Agroton	AGT PW	6.28	12.0	91%	BUY	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. 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.
Iron Ore						
Ferrexpo	FXPO LN	332	280	-16%	SELL	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.
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project. The shares of Motor Sich remained frozen due to an ongoing investigation conducted by the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	205	350	71%	BUY	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.
Enwell Energy (ex-Regal)	ENW LN	23.8	--	--	U/R	
JKX Oil & Gas	JKX LN	29.0	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	24.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergo	CEEN	8.50	15.00	76%	BUY	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 8 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.
Banks						
Raiffeisen Bank Aval	BAVL	0.495	0.33	-33%	SELL	Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, decreased its net profit by 14% YoY to UAH 4.1bn in FY20, which implied earnings per share of 6.63 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.

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
			1W	YtD				2020E	2021E	2020E	2021E	2021E
UX Index	UX	1768	-0.5%	9.3%								
Iron Ore Mining												
Ferrexpo	FXPO	332	-1.0%	11.6%	2733	2729	24.0%	6.5	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	205	-6.8%	7.9%	399	387	3.0%	neg	17.6	1.3	6.3	0.4
Enwell Energy (ex-Regal)	ENW	23.8	-6.7%	12.0%	107	52	21.6%	35.5	11.8	2.0	1.7	0.8
JKX Oil	JKX	29.0	9.0%	-3.3%	70	178	50.4%	17.4	10.0	6.4	5.2	2.1
Power Utilities												
Centrenergy	CEEN	8.50	3.0%	18.1%	113	111	21.7%	neg	27	8.2	6.8	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	5.70	-2.7%	-5.3%	602	1758	32.5%	neg	5.0	4.9	4.4	0.8
Kernel	KER	54.30	-0.7%	10.1%	1,124	2141	61.8%	9.5	3.0	4.8	3.5	0.5
Astarta	AST	41.50	-10.8%	58.4%	269	444	37.0%	32.6	25.7	3.7	3.3	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	6.28	-11.5%	43.4%	35	25	25.0%	17.7	14.1	2.3	2.7	0.8
Banks												
Raiffeisen Bank Aval	BAVL	0.495	3.1%	20.7%	1,092		1.8%	7.2	8.6	2.4	2.5	0.28

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	14	16	-11.7%	1.9%	2.4%	-77	2	4	-13.1%	0.3%	0.6%
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

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