

## Stock Market Update

### Equity

Kyiv-listed stocks remained in their recent trading range, with the UX index inching down by 0.1% last week to close at 1767 points. The hot name UkrNafta (UNAF) saw its stock at a bid of UAH 210 while the ask quote rose to UAH 230 per share. The large spread in the UNAF stock indicates that market players in a period of uncertainty about how UkrNafta might be split between its shareholders according to the government's announced strategy. Raiffeisen Bank Aval (BAVL) shed 1.0% to 49.00 kopecks ahead of the bank's annual shareholder meeting publication; minority shareholders are awaiting a dividend payout which could top 90% from the FY20 net profit of UAH 4.07bn. We project that Raiffeisen Aval will pay 5.95 kopecks per share.

On the upside, CentrErgo (CEEN) rose by 2.4% to UAH 8.70 as the company said it turned off the gas-fired power units which have been too costly this winter amid rising natural gas prices. We do not expect CentrErgo to post any profit for the first quarter, but there is a higher chance now that the second quarter will bring solid financial results for the company.

Iron ore producer Ferrexpo (FXPO) advanced by 6.5% to GBP 353 per share ahead of the company's earnings report for FY20 coming this week. We forecast that Ferrexpo will post a net profit of USD 430mn for FY20. The company enjoyed very favorable pricing for its premium iron ore pellets on the global market last year. London-listed energy producers with assets in Ukraine were mixed. JKX Oil&Gas (JKX) remained unchanged at GBP 29.00 while Enwell Energy (former Regal) dropped by 5.3% to GBP 22.50. Poultry giant MHP (MHPC) rebounded by 7.4% to USD 6.12 after the stock's recent slide.

On the Warsaw Stock Exchange, Kernel (KER) gained 2.0% to PLN 55.40 while Astarta (AST) closed flat at PLN 41.50.

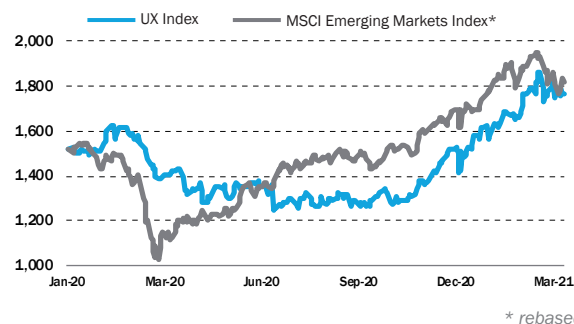
On the interbank currency market, the hryvnia continued its run of relative stability since the start of the year, edging up by 0.2% to 27.71 UAH/USD.

## Highlights

### POLITICS AND ECONOMICS

- > US Senator: Ukraine's Elite "Need to Fear" NABU Director Sitnyk
- > Ukraine Headline Inflation Accelerates to 7.5% YoY in February

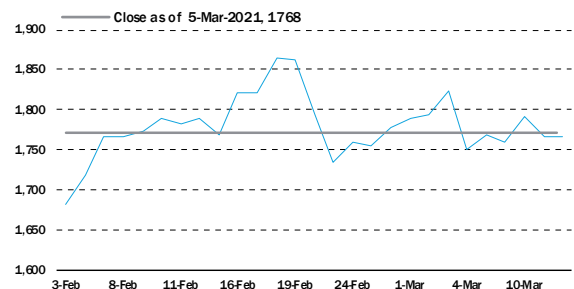
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
UX	1767	-0.1%	9.3%
RTS	1542	6.6%	11.2%
WIG20	2011	3.7%	0.9%
MSCI EM	1348	0.6%	4.4%
S&P 500	3943	2.7%	5.0%

## UX 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.5%	0.0 p.p.	+0.5 p.p.
UAH 1-year bond	11.0%/10.5%	0.0 p.p.	-0.2 p.p.
Ukraine-2025	5.5%	-0.1 p.p.	0.6 p.p.
Ukraine-2028	6.9%	-0.3 p.p.	0.6 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.71	-0.2%	-2.0%
EUR/UAH	33.03	-0.2%	-4.9%

Source: Eavex Capital

## US Senator: Ukraine's Elite "Need to Fear" NABU Director Sitnyk

by Will Ritter  
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### NEWS

US Senator Chris Murphy, one of the most influential Democratic Party lawmakers on foreign policy issues, publicly endorsed the activity of National Anti-Corruption Bureau (NABU) director Artem Sitnyk in an article published by US outlet Politico on Saturday (Mar 13). Murphy said that "NABU has to be empowered, and Sitnyk has to be able to operate independently – people need to fear him and his operation". The job of Sitnyk, who was appointed in 2015 when NABU was established, has come under threat in the last year as forces in Parliament have been trying to either fire him or reduce his broad powers to investigate officials across all levels and branches of government. Also notably quoted in the same article were former head of the National Security & Defense Council (RNBO) Oleksander Danyliuk, who criticized the Zelenskyy administration, saying "If I were sitting in the White House, I would see that in Ukraine there has clearly been some backtracking on anti-corruption efforts", and Zelenskyy's press secretary Yulia Mendel, who said "We firmly believe President Biden is a great friend of Ukraine, and President Zelenskyy looks forward to working with him in the coming years in combating Russian aggression and deoligarchizing Ukraine."

### COMMENTARY

The strongly-worded quote from Murphy indicates that the Biden administration (of which Murphy is a close ally) is trying to return the Washington-Kyiv relationship to values-based principles after the extremely transactional nature of relations during the Trump administration. However, one of the initial top Ukrainian priorities in relations, enlisting the Biden administration's help in stopping the completion of the Russian-German Nord Stream 2 Baltic Sea energy pipeline, appears to be headed for disappointment, as the US will likely cede the decision to the German government. We believe that the Zelenskyy administration has already understood the situation with Nord Stream 2 and is looking to move past it to other key issues of cooperation. Washington recently answered Zelenskyy's February move to impose penalties on the pro-Russian politician-oligarch Victor Medvedchuk with its own sanctions against Igor Kolomoyskiy, an even more powerful oligarch, and we see that reducing Kolomoyskiy's influence is clearly going to be one of the top priorities of the Biden administration in Ukraine.

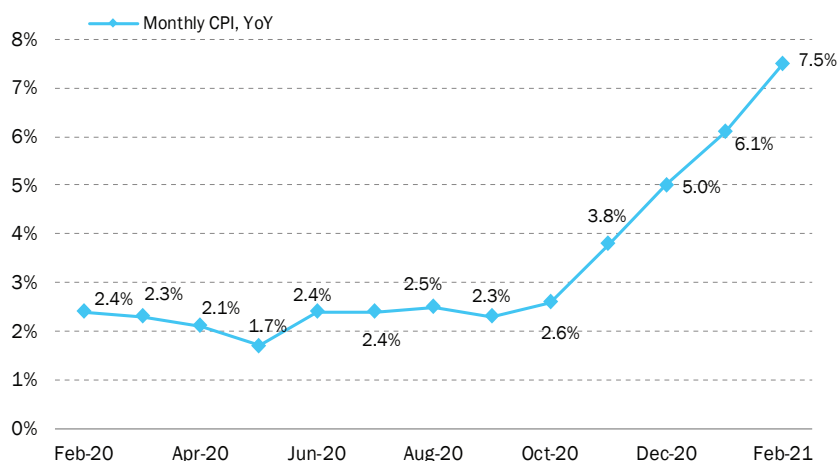
**Consumer Inflation Accelerates to 7.5% YoY in February**

by Dmitry Churin  
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**NEWS**

Rolling 12-month consumer price “headline” inflation in Ukraine accelerated to 7.5% in February after coming in at 6.1% YoY in January and 5.0% in December, according to State Statistics Committee data published on Mar 9. February’s CPI increase on a month-on-month basis was a notable 1.0%.

**UKRAINE’S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

The inflation figure for February would have been even higher if the government of Prime Minister Dennis Shmygal had not made the populist move of lowering natural gas tariffs for households, thereby violating the market approach to pricing in the energy sphere; we suppose that the IMF will not fail to take note of this as it continues to evaluate Kyiv’s commitment to the currently suspended standby loan program.

In other consumer basket categories, the bread price grew by 2.8% MoM, with the price moving up by 12% on a yearly basis as overall grain prices on the global market surged in the second half of 2020.

The National Bank raised its key refinancing rate from 6.0% to 6.5% earlier this month in a response to accelerating inflation in the country. The NBU says it is targeting headline inflation in a range of 4-6% for the medium-term horizon. Meanwhile, inflation expectations remain elevated. The central bank’s officials said that inflation will reach its peak in mid-2021 and will decelerate afterwards, returning to its target range in the first half of next year. However, this projection sounds overly optimistic to us, given the current enormous monetary stimulus programs in the world’s biggest economies, which are likely to push global commodity prices higher. We assume that the National Bank will increase its key rate further by 50 bps to 7.0% at the scheduled monetary policy meeting on Apr 15.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	55.4	65.0	17%	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	6.1	11.5	88%	BUY	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.
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	6.20	12.0	94%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	353	280	-21%	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.
<b>Specialized Machinery</b>						
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 the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	210	350	67%	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	22.5	--	--	U/R	
JKX Oil & Gas	JKX LN	29.0	--	--	U/R	
<b>Power Utilities</b>						
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	8.70	15.00	72%	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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.490	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	1767	-0.1%	9.3%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	353	6.5%	18.9%	2909	2905	24.0%	6.9	5.7	5.1	4.2	1.6
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.0	0.0%	11.1%	83	56	5.0%	9.7	15.8	4.3	5.7	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	8.5	0.0%	3.0%	130	126	3.8%	6.7	9.1	2.5	3.1	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	404	402	24.0%	12.8	17.3	3.9	4.5	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	210	2.4%	10.5%	411	399	3.0%	neg	18.1	1.4	6.5	0.4
Enwell Energy (ex-Regal)	ENW	22.5	-5.3%	6.1%	101	47	21.6%	33.7	11.2	1.8	1.6	0.8
JKX Oil	JKX	29.0	0.0%	-3.3%	70	178	50.4%	17.4	10.0	6.4	5.2	2.1
<b>Power Utilities</b>												
Centrenergy	CEEN	8.70	2.4%	20.8%	116	114	21.7%	neg	28	8.4	7.0	0.2
Donbasenergy	DOEN	24.00	0.0%	20.0%	20	19	14.2%	9.2	7.3	2.3	2.4	0.1
<b>Consumer</b>												
MHP	MHPC	6.12	7.4%	1.7%	647	1803	32.5%	neg	5.4	5.0	4.6	0.9
Kernel	KER	55.40	2.0%	12.4%	1,147	2164	61.8%	9.7	3.1	4.9	3.5	0.5
Astarta	AST	41.50	0.0%	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	6.20	-1.3%	41.6%	35	25	25.0%	17.4	14.0	2.3	2.7	0.8
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.490	-1.0%	19.5%	1,087		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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1507	1430	1788	586	570	684	38.9%	39.9%	38.3%	403	420	510	26.7%	29.4%	28.5%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
Centrenergo	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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		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			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
<b>UAH denominated Bonds</b>									
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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