

## Stock Market Update

### Equity

Kyiv-listed stocks finished mixed for the second week in a row as corporate news flow continued to dominate on the market. Quotes for Raiffeisen Bank Aval (BAVL) dropped by 6.2% to 45.00 kopecks after the bank's proposed dividend payout was far lower than initially expected. The bank is going to pay a 3.31 kopeck dividend per share from FY20 net profit of 6.63 kopecks per share. CentrErgo (CEEN) fell 4.4% to UAH 8.60. On the upside, UkrNafta (UNAF) jumped by 17% to UAH 259 ahead of the company's earnings result for 4Q20. It is expected that the company will show an enormous on-paper profit in December from the one-off large natural gas deal with its state-owned parent group NaftoGaz.

In Ukraine's relationship with the IMF, there was an announcement of new negotiations for the first review of the Stand-By loan. The agenda for the next few months is to continue discussions on a well-focused set of reforms needed to ensure fiscal sustainability for the country, IMF press liaison Gerry Rice said at a traditional briefing in Washington. In our view, Kyiv has a chance to complete the program review with the IMF by the end of May.

On the London Stock Exchange, Ferrexpo (FXPO) corrected by 3.8% to GBP 375 after its surge of 10% over the preceding week. Information regarding a possible increase in the iron ore production tax in Ukraine had a negative impact on the FXPO stock. Poultry maker MHP (MHPC) declined by 1.4% to USD 5.54 despite the company's somewhat better financial results for 4Q20. Moreover, the company declared a 28 US cents dividend per share which is set to be paid in late April.

Warsaw-listed Agroton (AGT) shed 1.6% to PLN 6.02 per share while top liquid name Kernel (KER) sat unchanged at PLN 55.90.

The hryvnia saw its first substantial decline in two months on the interbank market, giving up 1.0% against the dollar to close at 28.01 UAH/USD.

## Highlights

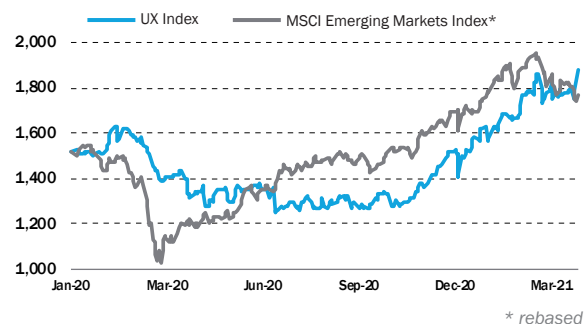
### POLITICS AND ECONOMICS

- > Zelenskiy Tries to Oust Top KCU Judge by Decree
- > Ukraine's Daily Industrial Output Climbs 0.3% MoM in February as Solid Growth Resumes in Retail Sales

### STOCKS IN THE NEWS

- > MHP's Debt Leverage Worsens to 3.7x EBITDA in 2020, Dividend Still Expected

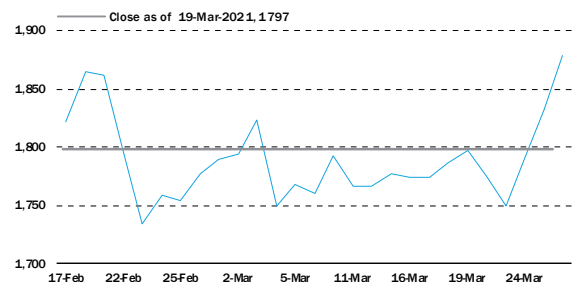
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
UX	1879	4.6%	16.2%
RTS	1455	-1.3%	4.9%
WIG20	1934	0.4%	-3.0%
MSCI EM	1307	-2.2%	1.2%
S&P 500	3974	1.6%	5.8%

## 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	11.3%/10.5%	0.0 p.p.	-0.1 p.p.
Ukraine-2025	5.4%	0.0 p.p.	0.5 p.p.
Ukraine-2028	6.9%	0.0 p.p.	0.6 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.01	1.0%	-0.9%
EUR/UAH	33.02	0.2%	-5.0%

Source: Eavex Capital

## Zelenskiy Tries to Oust Top KCU Judge by Decree

by Will Ritter  
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### NEWS

President Zelenskiy issued a decree on Saturday (Mar 27) dismissing the head of Ukraine's Constitutional Court (KCU) Olexander Tupytskiy on grounds that Tupytskiy represents a threat to national security. The KCU has come under intense multi-sided criticism since October, when it struck down key tenets of Ukraine's anti-corruption legislation, in particular the law forcing all public officials to declare their assets, and the broad investigative authorities of the independent National Anti-Corruption Bureau (NABU). Tupytskiy was appointed as the head judge of the KCU in 2013 by then-President Victor Yanukovich. Zelenskiy accused Tupytskiy and other KCU judges of advancing the interests of Russia with their rulings. The same decree also dismissed another judge, Olexander Kasminin. The KCU has 18 members.

### COMMENTARY

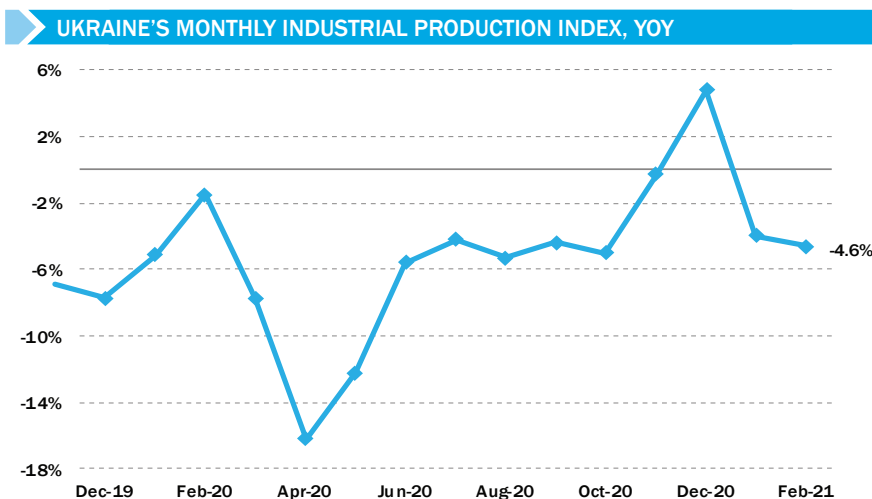
The problem with this move, which looks like a sure winner in domestic political terms due to the widespread distrust of Ukraine's judiciary, is that Zelenskiy lacks the explicit legal authority to remove the judges of Ukraine's top court. Tupytskiy's dismissal is likely to be challenged in the KCU itself, the very body that Zelenskiy is attempting to shake up. We assume that Zelenskiy understands this quagmire, and that his intention is to use his levers of hard power - the Security Service (SBU) and the National Security Council (RNBO) - as well as public opinion, to harass Tupytskiy until he gives up and leaves the post. Thus far, 2021 has seen a more aggressive Zelenskiy looking to re-establish his pro-Ukrainian and pro-reform credentials after a sluggish performance 2020 that saw his popularity decline markedly to around 45% approval, from above 70% during 2019. In the past two months, Zelenskiy has launched attacks against several figures who are widely despised by the pro-Ukrainian electorate, including pro-Russian oligarch Victor Medvedchuk, exiled former President Yanukovich, and now Tupytskiy. However, looming larger than any of those 3 is industrialist Igor Kolomoyskiy, who played a key role in helping Zelenskiy win the presidency two years ago and who has been declared enemy number one in Washington and Brussels as an obstacle to Western-style reforms in Ukraine. Thus far, Zelenskiy appears to be taking a markedly more cautious approach to Kolomoyskiy compared to his aggressive moves against other unpopular figures.

**Ukraine's Daily Industrial Output Climbs 0.3% MoM in February as Solid Growth Resumes in Retail Sales**

by Dmitry Churin  
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**NEWS**

Ukraine's State Statistics Committee (UkrStat) released data last week indicating that industrial production in the country dropped by 4.6% YoY in February. However, UkrStat does not adjust for leap year days in the comparison base, implying that the year-on-year decline was only 2.0% in terms of average daily output. On a month-on-month basis, output during the month edged up by 0.3% compared to January. The aggregate output index for the extraction sector decreased by 3.9% YoY and by 6.7% YoY for the manufacturing sector in February, while the utility services saw a growth of 1.9% YoY in the reported period. All of the UkrStat year-on-year comparison figures for February are skewed to the negative side by 3% due to 2020's extra day. The previous months' industrial index performances were a decline of 4.0% YoY in January and a rise of 5.0% YoY registered in December.



Source: State Statistics Committee

**COMMENTARY**

UkrStat's failure to adjust its statistics for leap year days has unfortunately distorted key pieces of the Ukrainian macroeconomic picture to the downside for February and 2M21. In the individual sub-sectors of the economy there was a mixed performance last month. Ukraine remained in poor shape in terms of heavy machinery production, which saw its output drop by 7.0% YoY in February. Meanwhile, the chemical industry continued on a recovery path, demonstrating an output increase of 13.5% YoY last month.

In other key economic statistics, UkrStat reported that retail sales volume increased by 5.6% YoY, which implies a healthy 9.0% rise after re-calibrating for the leap year comparison base. January's rise was considerably weaker at 3.5% YoY amid the national COVID-19 quarantine imposed during much of that month. The retail sales figures have been quite impressive for the last three years, confirming generally positive consumer sentiments. We see this sustained trend as being partly driven by stable remittances from Ukrainians working abroad.

The agro sector's output index was down by 6.1% YoY in the January-February period (4.4% after the leap year adjustment).

**MHP's Debt Leverage Worsens to 3.7x EBITDA in 2020, Dividend Still Expected**

by Dmitry Churin  
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**MHP (MHPC LI)**

Price: USD 5.54 Market Cap: USD 614mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.6	1.0	neg	5.5	5.1%
2021E	0.5	0.9	5.1	5.0	5.1%

**NEWS**

London-listed, central-Ukraine-based MHP (MHPC), Ukraine's largest poultry producer, reported that its EBITDA declined by 10% YoY to USD 340mn in FY20. As a result, the company's Net Debt/EBITDA ratio worsened to 3.7x from 3.0x a year earlier, according to the company's earnings report published on Mar 24. The company's total debt stood at USD 1.46bn as of 31 Dec 2020 with 99% of the debt in longer-term loans and bonds. The weighted average interest rate was reported at approximately 7%. MHP's net revenue decreased by 7% YoY to 1.91bn last year while its net loss amounted to USD 133mn due to a USD 204mn foreign exchange non-cash loss caused by the hryvnia devaluation of 16% over the full-year period. On a quarterly basis, the company reported that its revenue declined by 10% YoY to USD 497mn in 4Q20 and EBITDA dropped by 58% YoY to USD 8mn. The company posted a net loss of USD 24mn for 4Q20 compared to a net loss of USD 61mn seen for 4Q19.

MHP's total assets were at USD 3.28bn at the end of last year, with shareholder equity standing at USD 1.25bn. MHP invested USD 79nm in CapEx in 2020.

**MHP FINANCIALS**

USD mn	4Q19	4Q20	chg.	2019	2020	chg.
Net revenue	551	497	-10%	2,056	1,911	-7%
EBITDA	19	8	-58%	376	340	-10%
margin	3.4%	1.6%	-1.8 p.p.	18.3%	17.8%	-0.5 p.p.
Net Income	-61	-24	-/-	215	-133	+/-
net margin	-11.1%	-4.8%	+6.2 p.p.	10.5%	-7.0%	-17.4 p.p.

Source: Company data.

**COMMENTARY**

MHP's bottom line for 4Q20 was somewhat better than our forecast of a net loss of USD 41mn for the period. However, both net revenue and EBITDA for FY20 missed our expectations, confirming concerns that the poultry meat price would see a lag in growth compared to most soft commodities on the global market. MHP said that its EBITDA in the poultry segment slumped by 31% YoY to USD 194mn in FY20 while in the farming segment EBITDA jumped by 62% to USD 97mn.

Although MHP had a net loss for FY20 and its debt leverage worsened, the company, which is dominated by majority owner Yuriy Kosyuk, is proposing to pay out USD 30mn to shareholders in the form of a dividend. This would imply a 28 US cents dividend per share and a substantial dividend yield of 5% taking into account the MHPC stock current price of USD 5.54.

We now forecast that MHP will be able to increase its net revenue by 7% YoY to USD 2.05bn this year and to earn a net profit of USD 120mn as poultry prices bounce back.

Eavex Capital has a BUY recommendation for the MHPC stock with a target price of USD 11.50 per share, which implies a 108% upside.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	55.9	65.0	16%	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	5.5	11.5	108%	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 1.46bn as of 31 Dec 2020. The Net Debt/EBITDA ratio was 3.7x as of 1 Jan 2021, up from 3.0x as of 1 Jan 2020. We now forecast that MHP will be able to increase its net revenue by 7% YoY to USD 2.05bn this year and to earn a net profit of USD 120mn as poultry prices bounce back.
Astarta	AST PW	38.8	--	--	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	6.02	12.0	99%	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	375	280	-25%	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. We currently forecast that Ferrexpo's net profit will decline by 18% YoY in FY21 to USD 520mn.
<b>Specialized Machinery</b>						
Motor Sich	MSICH	5390	--	--	U/R	There was little clarity on the situation regarding Motor Sich's (MSICH) nationalization. No mechanism of compensation for existing shareholders was announced after the Kyiv District Court arrested 100% of the shares of Motor Sich and appointed a special state agency to manage the company. 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	259	350	35%	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	22.8	--	--	U/R	
JKX Oil & Gas	JKX LN	26.3	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	DOEN	24.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	8.60	15.00	74%	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 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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.450	0.33	-27%	SELL	Raiffeisen Bank Aval (BAVL) announced that it will distribute 50% of its FY20 net profit as a dividend, far lower than what was expected. Although this still implies a solid 3.31 kopeck dividend per share, the bank disappointed minority investors; we had projected a 5.96 kopeck dividend. The bank has not set the ex-right date for dividend yet. 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.

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	1879	4.6%	16.2%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	375	-3.8%	26.3%	3044	3040	24.0%	4.8	5.8	3.5	4.2	1.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.0	0.0%	11.1%	82	55	5.0%	9.6	15.7	4.2	5.6	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	8.2	0.0%	-0.6%	124	121	3.8%	6.4	8.7	2.3	2.9	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	400	398	24.0%	12.7	17.1	3.9	4.4	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	259	17.2%	36.3%	501	489	3.0%	neg	22.1	1.7	8.0	0.5
Enwell Energy (ex-Regal)	ENW	22.8	2.5%	7.3%	101	46	21.6%	33.5	11.2	1.8	1.5	0.7
JKX Oil	JKX	26.3	-1.9%	-12.5%	62	171	50.4%	15.5	8.9	6.1	5.0	2.0
<b>Power Utilities</b>												
Centrenergo	CEEN	8.60	-4.4%	19.4%	113	111	21.7%	neg	27	8.2	6.8	0.2
Donbasenergo	DOEN	24.00	0.0%	20.0%	20	19	14.2%	18.8	7.3	2.2	2.4	0.1
<b>Consumer</b>												
MHP	MHPC	5.54	-1.4%	-8.0%	585	1829	32.5%	neg	4.9	5.4	4.9	0.9
Kernel	KER	55.90	0.0%	13.4%	1,131	2148	61.8%	9.6	3.1	4.8	3.5	0.5
Astarta	AST	38.80	-2.0%	48.1%	246	421	37.0%	29.8	23.4	3.5	3.1	0.8
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	-0.1	17	20	3.0
Agroton	AGT	6.02	-1.6%	37.4%	33	23	25.0%	16.6	13.2	2.1	2.5	0.7
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.450	-6.2%	9.8%	988		1.8%	6.5	7.8	2.2	2.3	0.25

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	1700	1615	586	859	730	38.9%	50.5%	45.2%	403	635	521	26.7%	37.4%	32.3%
<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	1	3	-1.1%	0.4%	1.1%
<b>Consumer</b>																
MHP	MHPC	2056	1911	2045	376	340	374	18.3%	17.8%	18.3%	215	-133	120	10.5%	-7.0%	5.9%
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			9.5%	8.0%	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			11.3%	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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