

Stock Market Update

Equity

The UX index basket stocks finished mixed last week, with a clearly positive statement from Prime Minister Dennis Shmygal regarding his intention to launch the second level pension system in the country being generally ignored by the market. Although the second level pension system, which is an individual one compared to the existing solidarity pension system, should bring in fresh funds to the stock market, there is still a lot of skepticism about the announced timing of the pension reform, as it has been repeatedly postponed for several years.

The UX index declined by 3.4% to 1834 points, dragged down by a 6.8% correction in UkrNafta (UNAF) to UAH 259 per share. The company has still not unveiled its 4Q20 earnings results. It is expected that UkrNafta's net profit in 4Q20 was very large due to a settlement with its state-owned parent NaftoGaz. It is quite possible that UkrNafta could declare a dividend from last year's profit, and the dividend from the FY18 net profit of UAH 119 per share. As a majority state owned company, UkrNafta was obligated to declare a 90% dividend payout from FY18 net profit. This means that there is a chance of a dividend of UAH 107 per share that UkrNafta might declare at the next shareholders meeting. On the other hand, the Ukrainian government has often declined to enforce the dividend policy prescribed for state-owned entities in regard to UkrNafta.

On the upside, DonbasEnergo (DOEN) surged by 15% to UAH 25.00 after the company proposed an additional dividend of UAH 2.64 per share from its FY18 net profit.

In London, Ferrexpo (FXPO) bounced back by 2.5% to GBp 364 as the benchmark iron ore price remained strong, hovering at USD 170 per tonne. Meanwhile, MHP (MHPC) demonstrated further weakness, shedding 1.5% to USD 5.32 per share.

Ukrainian stocks listed in Warsaw were broadly lower over the week, with Kernel (KER) declining 2.5% to PLN 53.60. Astarta (AST) and Agroton (AGT) dropped by 8.2% and 9.5% to PLN 38.50 and PLN 5.94 per share respectively.

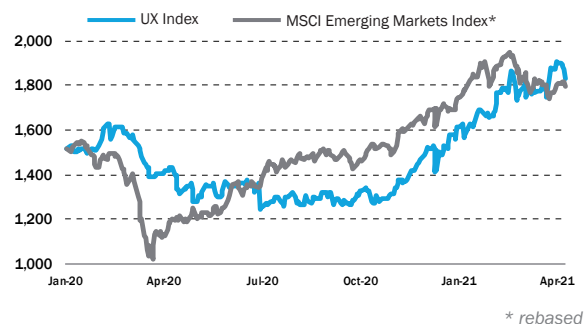
The hryvnia strengthened by 0.4% to 27.93 UAH/USD after the National Bank reported that its foreign reserves had decreased by only slightly more than USD 1bn, to USD 27.0bn, despite a large USD 1.8bn payment to service the country's foreign debt in March.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Tries to Play NATO Card After Talks with Stoltenberg, Erdogan
- > Ukraine's 12-Month Inflation Jumps to 8.5% After March Data

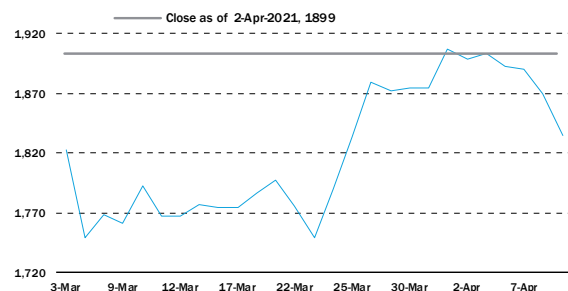
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1834	-3.4%	13.4%
RTS	1417	-3.3%	2.2%
WIG20	1975	1.1%	-1.0%
MSCI EM	1330	-0.6%	3.0%
S&P 500	4128	2.7%	9.9%

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	11.9%/10.6%	+0.2 p.p.	+0.1 p.p.
Ukraine-2025	6.1%	0.5 p.p.	1.2 p.p.
Ukraine-2028	7.3%	0.0 p.p.	1.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.93	-0.4%	-1.2%
EUR/UAH	33.19	0.7%	-4.5%

Source: Eavex Capital

Zelenskiy Tries to Play NATO Card After Talks with Stoltenberg, Erdogan

by Will Ritter
w.ritter@eavex.com.ua

NEWS

President Zelenskiy wrote on social media last week that “NATO is the only way to end the war in the Donbass”, after talks with NATO Secretary-General Jens Stoltenberg. Later in the week, Zelenskiy traveled to Istanbul, where he held a 3-hour meeting with Turkish President Erdogan, where Erdogan expressed support for eventual Ukrainian NATO membership and also reiterated that Turkey does not recognize the 2014 Russian annexation of Crimea. Zelenskiy said that he and Erdogan had discussed the security situation in the Black Sea and that the Ukrainian and Turkish positions “coincided”. The Turkish leader said he wants the Black Sea to remain a region of “peace, calm, and cooperation” and that he supports the resolution of the conflict in Eastern Ukraine by peaceful and diplomatic means.

COMMENTARY

In our view, the situation in regard to NATO is the exact opposite of how Zelenskiy described it: in fact, ending the war in the Donbass is the only realistic way for Ukraine to join NATO. It is obvious that none of the major Western European nations will ever line up to offer Ukraine an Article 5 military defense guarantee while there is a Russian-Ukrainian territorial conflict in progress. Insofar as there is no feasible way to re-integrate the occupied Donbass territories back into Ukraine that would serve Ukrainian national interests, the only real options for Kyiv are a continuation of the post-2014 status quo, or an eventual renunciation of Ukraine’s claim to the occupied territories. Previous President Petro Poroshenko understood this reality clearly, although it was politically impossible for him to state it openly, and now Zelenskiy has come up against the same wall himself. The great advantage that Ukraine currently has in this stalemate is that the costs to the Kremlin of trying to seize any more Ukrainian territory via military operations would be prohibitive in terms of the punitive sanctions that Russia would face from the West for such a move. However, the idea of joining NATO as a magic pill to solve Ukraine’s well-documented, long-term problems of weak state institutions and corruption is naive; it is one thing for Zelenskiy to make such grandiose statements about joining NATO in public for domestic political consumption, but quite another for him to actually believe this rhetoric. Trumpeting the support of Turkey, Poland and Lithuania for Ukrainian NATO membership looks to us like a rather pointless exercise, as these are simply not the countries which are responsible for making key decisions relating to the alliance. For now, Zelenskiy will have to make do with the very firm declarations of support that have been issued by both the Biden administration and the French and German governments aimed at deterring any new Russian aggression during a time when tensions with Moscow have been on the upswing.

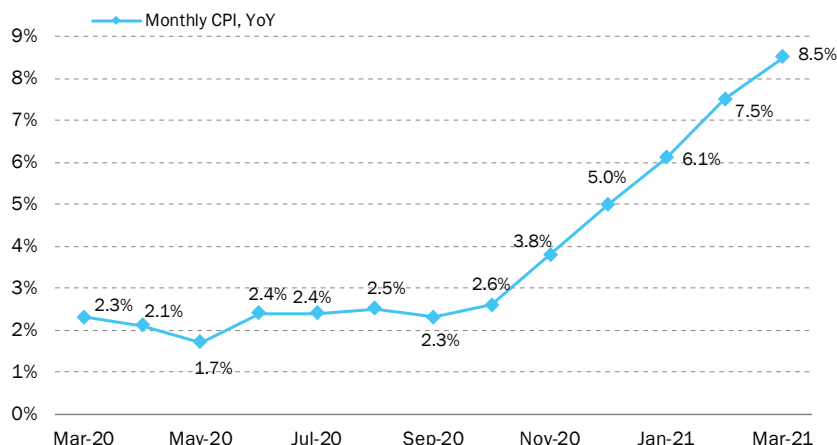
Ukraine's 12-Month Inflation Jumps to 8.5% After March Data

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

NEWS

Rolling 12-month consumer price “headline” inflation in Ukraine reached 8.5% after the March data release on Apr 9, according to the State Statistics Committee’s publication. As was reported earlier, inflation in Ukraine accelerated to 7.5% in February after coming in at 6.1% YoY in January and 5.0% in December. In March alone, the CPI rose by a significant 1.7% on a month-on-month basis.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The actual inflation pace this year is clearly out-running the base case scenario forecast, with a trend emerging of a roughly 1% rise in Ukraine’s headline inflation figure each month for the last half year. This trend is in line with the European and US economies, where enormous rounds of monetary creation and fiscal stimulus are fueling a rebalancing of supply and demand. In the major consumer basket categories, the food price index in Ukraine grew by 10.4% YoY in March and the utility service price index increased by 22% YoY. The main restraint on overall inflation was provided by the clothing price index, which fell by 5.0% YoY.

The high inflation number is expected to prompt the National Bank’s monetary policy board to raise the key refinancing rate at the meeting scheduled this week. The key rate decision will be announced on 2pm on Thursday (Apr 15). According to a summary of the previous monetary policy board meeting, there was concern that the National Bank’s inflation target of 4-6% is being overshot. The NBU also worried that the slow pace of the COVID vaccination campaign in Ukraine will affect the pace at which business activity, in particular investment activity, recovers. We assume that there will be a decision to increase the key rate from the current 6.5% to 7.0%. This will lead to an increase in yields for domestic UAH-denominated treasuries. In our view, the Finance Ministry will be forced to raise its offered yield for a 1-year bond from 10.75% to 11.25% and there will be a yield increase on the secondary market for the 1-year bonds from bid/ask of 11.9%/10.6% to 12.3%/11.0%. The wide corridor spread in quotes on the secondary market is an indication that local market players fear that offshore “non-resident” investors with large bond holdings could suddenly initiate a selling wave by trying to exit their positions amid the rising inflation pressure.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	53.6	65.0	21%	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>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.</p>
MHP	MHPC LI	5.3	11.5	116%	BUY	<p>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 1.46bn 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.</p>
Astarta	AST PW	38.5	--	--	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	5.94	12.0	102%	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	364	280	-23%	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. We currently forecast that Ferrexpo's net profit will decline by 18% YoY in FY21 to USD 520mn.</p>
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	<p>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.</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	259	350	35%	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	21.5	--	--	U/R	
JKX Oil & Gas	JKX LN	25.0	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	25.0	--	--	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	9.10	15.00	65%	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 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.</p>
Banks						
Raiffeisen Bank Aval	BAVL	0.460	0.33	-28%	SELL	<p>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.</p> <p>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.</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	1834	-3.4%	13.4%								
Iron Ore Mining												
Ferrexpo	FXPO	364	2.5%	22.6%	2935	2931	24.0%	4.6	5.6	3.4	4.0	1.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.3	-18.8%	-9.7%	67	40	5.0%	7.8	12.8	3.1	4.1	0.2
Specialized Machinery												
Turboatom	TATM	9.0	0.0%	9.1%	136	133	3.8%	16.2	9.5	2.6	3.2	1.4
Motor Sich	MSICH	5390	0.0%	0.0%	401	379	24.0%	12.7	17.2	3.7	4.2	1.1
Oil & Gas												
UkrNafta	UNAF	259	-6.8%	36.3%	503	491	3.0%	neg	22.2	1.7	8.1	0.5
Enwell Energy (ex-Regal)	ENW	21.5	1.7%	1.2%	94	40	21.6%	31.4	10.5	1.5	1.3	0.6
JKX Oil	JKX	25.0	8.7%	-16.7%	59	167	50.4%	3.0	8.4	5.6	4.9	2.0
Power Utilities												
Centrenergo	CEEN	9.10	1.1%	26.4%	120	77	21.7%	neg	13	4.6	3.2	0.1
Donbasenergo	DOEN	25.00	14.9%	25.0%	21	20	14.2%	19.6	7.6	2.3	2.5	0.1
Consumer												
MHP	MHPC	5.32	-1.5%	-11.6%	562	1806	32.5%	neg	4.7	5.3	4.8	0.9
Kernel	KER	53.60	-2.5%	8.7%	1,109	2126	61.8%	9.4	3.0	4.8	3.4	0.5
Astarta	AST	38.50	-8.2%	46.9%	250	425	37.0%	30.3	23.8	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	5.94	-9.5%	35.6%	33	23	25.0%	16.7	13.4	2.1	2.5	0.7
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.460	-2.1%	12.2%	1,013		1.8%	6.7	8.0	2.2	2.3	0.26

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	1700	1615	586	859	730	38.9%	50.5%	45.2%	403	635	521	26.7%	37.4%	32.3%
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	8	14	11.1%	8.0%	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	70	85	42	30	34	41.6%	42.6%	40.0%	22	20	7	21.8%	28.6%	8.2%
Electric Utilities																
Centrenerg	CEEN	589	764	819	-69	17	24	-11.7%	2.2%	2.9%	-77	2	9	-13.1%	0.3%	1.1%
Donbasenergo	DOEN	249	256	247	8	9	8	3.1%	3.3%	3.2%	-3	1	3	-1.1%	0.4%	1.1%
Consumer																
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%
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			9.5%	7.8%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			10.9%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			11.3%	10.2%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.9%	10.6%	n/a	n/a	S/A	11 May 2022	12,917
UA4000201255			13.2%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.5%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
USD 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 Klovisky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: research@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

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