

Stock Market Update

Equity

Stocks listed on the Ukrainian Exchange were mixed last week. On the downside, Raiffeisen Bank Aval (BAVL) lost 6.5% to 43.00 kopecks after the bank's 1Q earnings results were somewhat lower than expected. The bank posted a net profit of UAH 1.09bn for the period, implying EPS of 1.77 kopecks. We estimate the bank's forward P/E at 7.6x and P/B at 2.2x. DonbasEnergo (DOEN) corrected by 6.4% to UAH 25.00. Earlier the company announced a 37 kopeck per share dividend, which will be paid to shareholders in the register as of May 27. The actual dividend payment will be made sometime between late June and October. UkrNafta (UNAF) remained in a highly volatile trading mode, advancing by 9.2% to UAH 262. Quotes for CentrEnergo (CEEN) were flat at UAH 9.10.

In major economic news, UkrStat said that Ukraine's GDP contracted by 2.0% YoY in 1Q21, which means that it will be hard to achieve the targeted GDP growth of 4% for the full year, even assuming a solid recovery for both 2Q and 3Q.

In London-listed stocks, MHP (MHPC) continued to trade at multi-year low of USD 4.82 ahead of the company's 1Q earnings release due on 19 May. Ferrexpo (FXPO) declined by a moderate 1.0% to GBp 474 after its impressive sustained rally on the back of ballooning prices for iron ore. Enwell Energy (formerly Regal) rose 4.9% to GBp 19.10. The ENW stock has traded in a wide range of GBp 12.40-28.50 in the past 52 weeks.

On the Warsaw Stock Exchange, Agrotion (AGT) shed 2.5% to PLN 6.20 while Kernel (KER) picked up 1.5% to PLN 53.80.

On the currency market, the hryvnia gained 0.8% to 27.55 UAH/USD on expectations of higher export proceeds for the country after a forecast for the 2021 grain harvest topped 73mn tonnes, which would be close to the all-time record of 75mn tonnes seen in 2019.

Highlights

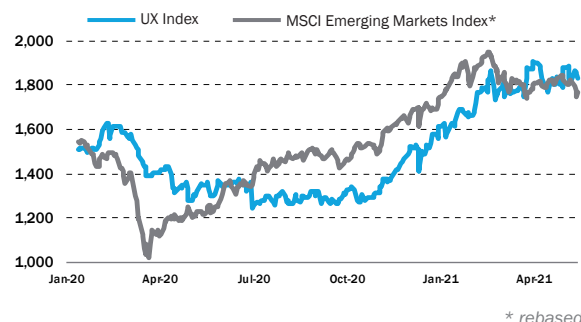
POLITICS AND ECONOMICS

- > Health Minister Stepanov Likely to be Sacked Amid COVID Struggles
- > Ukrainian GDP Slow to Rebound from COVID, Drops 2.0% YoY in 1Q21

STOCKS IN THE NEWS

- > Raiffeisen Aval Increases Profit by 5% YoY to USD 39mn in 1Q21 (1.77 Kopecks per Share)

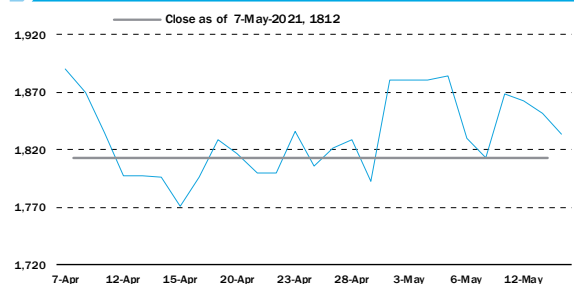
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1833	1.2%	13.4%
RTS	1548	-1.4%	11.6%
WIG20	2092	-1.1%	4.9%
MSCI EM	1307	-3.0%	1.2%
S&P 500	4173	-1.2%	11.1%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	12.5%/11.2%	0.0 p.p.	+0.7 p.p.
Ukraine-2025	5.6%	0.0 p.p.	0.7 p.p.
Ukraine-2028	6.9%	0.1 p.p.	0.6 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.55	-0.8%	-2.5%
EUR/UAH	33.45	-0.6%	-3.7%

Source: Eavex Capital

Health Minister Stepanov Likely to be Sacked Amid COVID Struggles

by Will Ritter
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NEWS

Prime Minister Dennis Shmygal has formally requested that Parliament vote on the firing of Health Minister Maxim Stepanov on Tuesday (May 18). Two other Cabinet members, Agriculture Minister Igor Petrashko and Infrastructure Minister Vladislav Kryklyi, resigned last week for reasons which were not specified by the government, while acting Energy Minister Yuriy Vitrenko left his post two weeks ago to take over as CEO of state energy giant Naftogaz. Stepanov has been at the Health Ministry for just over a year, starting at the height of the first COVID quarantine.

COMMENTARY

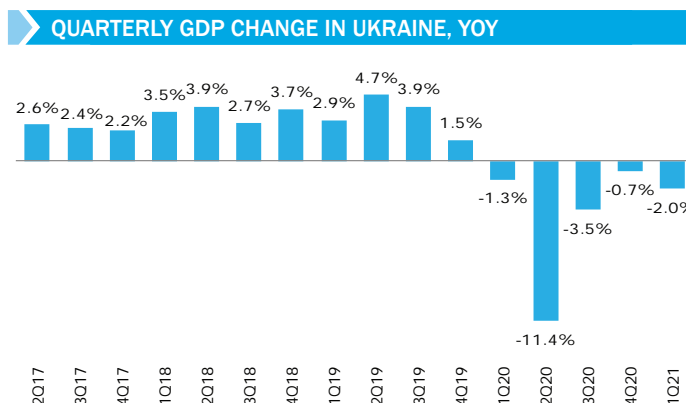
Stepanov is set to be scapegoated by the Zelenskiy administration for Ukraine's ongoing problems with COVID-19, which, as in most other countries in Europe, have persisted for longer than expected. Ukraine endured a punishing third wave of illnesses and hospitalizations which peaked in late March/early April. The country's vaccine rollout has been slow amid a shortage of product as well as widespread public distrust of the vaccinations, particularly the version produced in China. Currently we doubt that President Zelenskiy will be able to come anywhere near his stated goal of vaccinating all Ukrainians by the end of this year. New daily COVID cases have fallen to around 5,000 per day from the peak of nearly 20,000 in early April, but numbers seem set to begin rising again following the end of the nationwide quarantine earlier this month. It is clear that Ukraine will need to tolerate some level of the disease in order to keep the domestic economy open and to reach the government's target of at least 3% GDP growth for 2021. Although Ukrainians are still barred from entering most EU countries, there was some good news that Greece has opened up its borders to Ukrainian tourists as of May 14, conditional on a negative COVID test. The conditions and timetable for the opening of other EU member-states to Ukrainians remain unclear. As for the turnover of four Cabinet positions in the space of two weeks, we would hesitate to call it a shake-up, as Shmygal's position continues to look quite stable 14 months into his tenure as the head of Ukraine's government; he has - at least in public - managed to avoid conflicts with Zelenskiy and Presidential administration chief Andrey Yermak.

Ukrainian GDP Slow to Rebound from COVID, Drops 2.0% YoY in 1Q21

by Dmitry Churin
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NEWS

The Ukrainian economy contracted by 2.0% YoY in 1Q21 after its full-year decline of 4.0% seen in 2020, according to the preliminary estimate from the State Statistics Committee released on May 14. The data also showed that the country's seasonally-adjusted GDP decreased by 1.1% on a quarterly basis in the period. The government built the national budget for 2021 on a forecast for a GDP rise of 4.6% and inflation of 7.3%. The 4Q20 GDP performance had been a decline of 0.7% YoY.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The reported GDP contraction figure was worse than anticipated, and it means that the country's economic recovery is now very unlikely to reach the targeted level of 4% for the full year. We suppose that the government simply did not anticipate the COVID epidemic continuing to have a negative impact on economic activity well into 2021. Although consumer sentiments remain robust this year, with the retail sales index showing growth of 7.5% YoY in 1Q21, the overall industrial performance is weak, as industrial output fell 2.0% YoY in the period. The construction sector is also in a difficult position, as the drop in infrastructure construction was a whopping 19% YoY in the first quarter.

We had forecasted 4.0% YoY GDP growth for 2021. The released 1Q21 GDP figure prompts us to downgrade the forecast to 3.5%. We expect a solid 7% YoY GDP recovery in the 2Q due to the low comparison base of last year, when very strict quarantine measures were imposed in the country during April and May.

Raiffeisen Aval Increases Profit by 5% YoY to USD 39mn in 1Q21 (1.77 Kopecks per Share)

by Dmitry Churin
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RAIFFEISEN BANK AVAL (BAVL)

Price: UAH 0.43 Market Cap: USD 960mn

	P/Assets	P/Book	P/E	Div. Yield
2020	0.25	2.1	6.3	7.7%
2021E	0.24	2.2	7.6	6.8%

NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Austria-based Raiffeisen International, increased its net profit by 4.8% YoY to UAH 1.09bn (USD 39mn) in 1Q21, implying earnings per share of 1.77 kopecks, according to the bank's earnings report. On the top line, Raiffeisen Aval said that its gross interest income dropped by 14.4% YoY to 2.17bn while net interest income declined by a moderate 2.7% YoY to 1.81bn.

The bank's loan portfolio grew by 3.7% to UAH 47.4bn from the start of the year and total assets edged up by 1.5% to UAH 109bn (USD 3.9bn).

RAIFFEISEN BANK AVAL FINANCIALS

UAH mn	1Q20	1Q21	YoY chg.
Gross interest income	2534	2169	-14.4%
Net interest income	1858	1807	-2.7%
Net income	1037	1087	+4.8%
	31 Dec 2020	31 Mar 2021	YtD chg
Loan portfolio	45743	47414	+3.7%
Equity	12892	13945	+8.2%
Total assets	107287	108860	+1.5%

Source: Company data.

COMMENTARY

Raiffeisen Aval's reported net profit for 1Q21 was nearly 30% lower than what had been indicated by the National Bank's data released earlier. Although we do not have an explanation for the difference in the NBU data and Raiffeisen Aval's actual earnings report, we will not count on the regulator's indicative figures for individual banks in future. In general, we view Raiffeisen Aval's financial result for the reported quarter as mixed. The bank's lower interest income was in line with expectation, as the interest rates in the Ukrainian financial system declined over the year. On the other hand, we were disappointed that the bank failed to boost its commissions income, which decreased by 10% YoY to UAH 561mn. A rough analysis shows that Raiffeisen Aval saw an increase in net profit in 1Q21 solely due to operations with securities in the bank's portfolio, which almost entirely consists of Ukrainian domestic government bonds.

In other important information, Raiffeisen Bank Aval has still not set the ex-rights date for its 3.31 kopeck dividend from FY20 profit. At the current BAVL stock price, the implied dividend yield is a solid 7.7%.

We reiterate our full-year forecast for Raiffeisen Aval's net profit at UAH 3.6bn. The bank's estimated P/E multiple is 7.6x and the estimated P/B multiple is 2.2x.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	53.0	65.0	23%	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	4.8	11.5	139%	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 1.46bn 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	44.7	--	--	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	6.36	12.0	89%	BUY	Agroton unveiled a strategy to increase its land bank 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 11.7mn (PLN 2.06 per share) in 2020. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 25mn. The company continues to invest in growth, spending USD 3.8mn on CapEx in FY20.
Iron Ore						
Ferrexpo	FXPO LN	479	280	-42%	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.
Specialized Machinery						
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 by the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	240	350	46%	BUY	UkrNafta surged above UAH 200 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	18.2	--	--	U/R	
JKX Oil & Gas	JKX LN	19.0	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	26.7	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.10	15.00	65%	BUY	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.
Banks						
Raiffeisen Bank Aval	BAVL	0.460	0.33	-28%	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
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1812	-3.6%	12.1%								
Iron Ore Mining												
Ferrexpo	FXPO	479	9.1%	61.3%	3942	3938	24.0%	6.2	7.6	4.6	5.4	2.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.3	0.0%	-4.2%	71	45	5.0%	8.4	13.6	3.4	4.5	0.2
Specialized Machinery												
Turboatom	TATM	8.4	0.0%	1.8%	128	125	3.8%	15.2	8.9	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	403	381	24.0%	12.8	17.3	3.7	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	240	-7.7%	26.3%	469	461	3.0%	neg	4.6	1.4	2.9	0.5
Enwell Energy (ex-Regal)	ENW	18.2	-8.1%	-14.2%	82	27	21.6%	27.2	9.1	1.1	0.9	0.4
JKX Oil	JKX	19.0	-6.2%	-36.7%	46	154	50.4%	2.3	6.5	5.2	4.5	1.8
Power Utilities												
Centrenergy	CEEN	9.10	0.6%	26.4%	121	110	21.7%	neg	13	6.5	4.6	0.1
Donbasenergy	DOEN	26.70	6.8%	33.5%	23	22	14.2%	21.1	8.2	2.5	2.7	0.1
Consumer												
MHP	MHPC	4.82	-5.5%	-19.9%	509	1753	32.5%	neg	4.2	5.2	4.7	0.9
Kernel	KER	53.00	3.9%	7.5%	1,111	2128	61.8%	9.4	3.0	4.8	3.4	0.5
Astarta	AST	44.70	2.1%	70.6%	294	469	37.0%	35.6	28.0	3.9	3.5	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	0.2	neg	17	20	3.0
Agroton	AGT	6.36	2.9%	45.2%	36	26	25.0%	18.1	14.5	2.4	2.8	0.8
Banks												
Raiffeisen Bank Aval	BAVL	0.460	0.0%	12.2%	1,019		1.8%	6.7	8.1	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	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	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	1319	1007	-115	320	161	-10.5%	24.3%	16.0%	-158	158	102	-14.4%	12.0%	10.2%
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																
Centrenergy	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%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			11.2%	10.5%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			12.0%	11.0%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			12.5%	11.2%	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%	12.5%	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

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