

Stock Market Update

Equity

Trading in Kyiv-listed equities was almost entirely concentrated in the UNAF stock last week as UkrNafta (UNAF) declared a UAH 35.62 dividend per share from its FY18 profit. Quotes for the stock soared by 16% to UAH 305. The ex-rights date for the dividend distribution has not been set yet. UkrNafta conducted its annual shareholders meeting on May 18, and among other issues made a very controversial decision regarding its FY20 profit distribution. NaftoGaz, as UkrNafta's majority shareholder, and the minority shareholders group related to Igor Kolomoyskiy, both voted to pay out nearly half of the company's net profit of UAH 4.3bn directly to Ukraine's national budget, without formally declaring a dividend payout. Therefore, in our understanding, minority shareholders will not receive any dividend from the company's profit of last year, which is clearly a violation of shareholder rights.

In other local stocks, Raiffeisen Bank Aval (BAVL) bounced back by 7.0% to 46 kopecks after the bank set Jun 8 as the ex-rights date for its 3.31 kopecks per share dividend. On the downside, DonbasEnerg (DOEN) lost 12% to UAH 22.00. In second tier names, Krukiv Wagon (KVBZ) shed 1.4% to UAH 17.00.

In macroeconomic data, UkrStat reported that retail sales skyrocketed by 34% YoY in April as a result of the low comparison base with the same month a year ago, when strict quarantine restrictions were in place nationwide. In the January-April period, retail sales grew by 14% YoY.

On the London Stock Exchange, Ferrexpo (FXPO) corrected by 2.3% to GBP 463 from its multi-year high near GBP 480 of the previous week. MHP (MHPC) edged up by 0.6% to USD 4.85, remaining down by almost 20% Ytd as the company's financial results worsened this year; the company reported a 1Q EBITDA drop of 37% YoY.

In Warsaw, Kernel (KER) edged up by 1.3% to PLN 54.50 ahead of the company's earnings release for the Jan-Mar quarter. Agrotan (AGT) declined by 1.3% to PLN 6.12.

On the interbank currency exchange, the hryvnia gained 0.4% to 27.44 UAH/USD amid a general weakness of the dollar against other world currencies.

Highlights

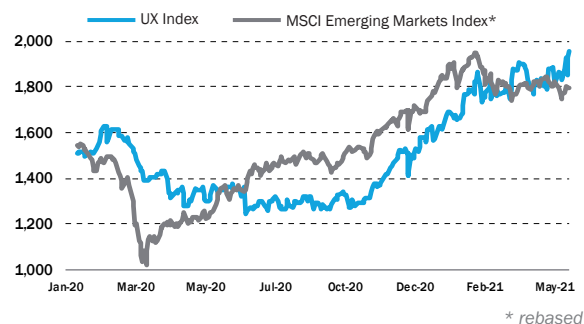
POLITICS AND ECONOMICS

- > Zelenskiy-Klitschko Heavyweight Rivalry Heating Up in Kyiv

STOCKS IN THE NEWS

- > MHP's 1Q EBITDA Down 37% YoY to USD 57mn

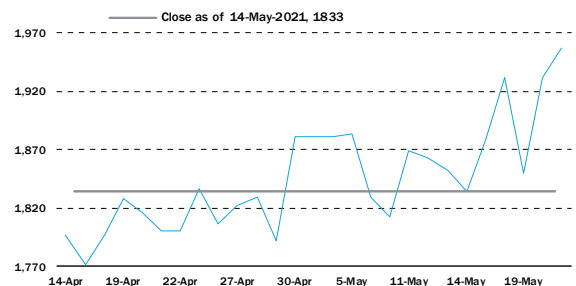
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1956	6.7%	21.0%
RTS	1569	1.4%	13.1%
WIG20	2139	2.2%	7.3%
MSCI EM	1330	1.8%	3.0%
S&P 500	4155	-0.4%	10.6%

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	5.3%	-0.3 p.p.	0.4 p.p.
Ukraine-2028	6.6%	-0.3 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.44	-0.4%	-2.9%
EUR/UAH	33.43	-0.1%	-3.8%

Source: Eavex Capital

Zelenskiy-Klitschko Heavyweight Rivalry Heating Up in Kyiv

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NEWS

Kyiv Mayor Vitaliy Klitschko has accused Ukraine's presidential administration of conducting a "special operation" against him, amid a barrage of searches by the Ukrainian Security Service (SBU) of Kyiv City Administration offices this month. The searches, which also involve the State Fiscal Service, have focused on the alleged misappropriation of funds in Kyiv's communal utility and transportation services. Deputy Mayor Mykola Povoroznik said on Monday (May 24) that these actions by the national authorities are a deliberate destabilization of the city government's ability to operate effectively.

COMMENTARY

It is starting to look like Kyiv is not big enough for both President Zelenskiy and Klitschko, and that a showdown may be imminent. The bad blood between the two dates from the period of Zelenskiy's show business career, when the future president often mocked and insulted Klitschko - who had already entered national politics - during his comedy sketches. The difficulty for Zelenskiy is that he may be biting off more than he can chew in trying to take down the capital's twice-elected mayor; using the state security apparatus to remove him would surely be viewed by Ukraine's Western backers as a naked power play and an affront to local government. Also, Zelenskiy has never been particularly popular in Kyiv, with the city having been one of the few strongholds of Petro Poroshenko in the 2019 presidential election, and his People's Servant party having performed poorly in last autumn's municipal elections. In the opening months of Zelenskiy's tenure, the new president attempted to oust Klitschko and replace him with television executive Olexander Tkachenko of the Igor Kolomoyskiy-owned 1+1 channel, a move which was abandoned after it was disastrously received. The Kyiv mayorship is an elected but largely ceremonial position; as the capital effectively has the status of an oblast (province), the president has the authority to appoint the more powerful head of the City Administration. However, the standard practice has been for the president to recognize the will of Kyiv's voters by effectively merging the two jobs.

MHP's 1Q EBITDA Down 37% YoY to USD 57mn

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 4.85 Market Cap: USD 537mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.5	1.0	neg	5.4	5.8%
2021E	0.5	0.9	9.0	6.9	5.8%

NEWS

London-listed, Central Ukraine-based poultry producer MHP reported that its EBITDA declined by 37% YoY to USD 57mn in 1Q21, according to financials released on May 19. The company's top line revenue edged up by 1% YoY to USD 447mn in the reported period while operating profit plunged by 66% YoY to USD 16mn, implying an operating margin of just 4% in 1Q21 compared to the margin of 11% a year ago. MHP's net profit was at just USD 1mn for the quarter, compared to a net loss of USD 174mn back in 1Q20.

MHP's export sales declined by 8% YoY to USD 217mn, accounting for 49% of total sales, down from 54% of total sales a year earlier. In the segment breakdown, poultry sales accounted for 70% of revenue in 1Q21 while the remainder came from grain & other agro segment revenue, and the European operating segment. Poultry sales contributed USD 32mn on the EBITDA level (56% of the total).

On the balance sheet side, MHP reported that its total debt was USD 1.45bn as of Mar 31, with a 90% share of long-term liabilities in this figure and a weighted-average interest rate of 7%. The net debt-to-EBITDA ratio worsened to 4.3x, up from 3.7x at the start of the year. MHP has a non-binding Eurobond covenant limit of 3.0x.

MHP FINANCIALS

USD mn	1Q20	1Q21	chg.
Net revenue	443	447	+1%
EBITDA	90	57	-37%
margin	20.3%	12.8%	-7.6 p.p.
Net Income	-174	1	-/+
net margin	-39.3%	0.2%	+39.5 p.p.

Source: Company data.

COMMENTARY

MHP's financial results for 1Q21 were much worse than we projected. It seems that the problem is that the company was unable to sufficiently increase the achieved prices for its poultry products despite a clear trend of food price inflation globally. It was reported that MHP's average poultry sales price rose by 4% YoY in USD terms in 1Q21. Additional negative news was that MHP's output decreased by 7% YoY to 166,600 tonnes in 1Q21. The report showed that the company's net financial result from operations before the non-cash foreign exchange difference was a loss of USD 19mn in 1Q21 compared to a profit of USD 8mn in 1Q20. Thus, the marginal net profit of USD 1mn for 1Q21 was solely attributed to a foreign exchange gain of USD 20mn in the quarter, as the hryvnia's strengthening in the period reduced the book value of MHP's debt in UAH terms.

We have no choice but to slash our forecast for MHP's net profit from USD 120mn to USD 60mn for the full-year, which would imply a net profit of 54 cents per share. The estimated forward P/E for the MHPC stock is 9.0x, and EV/EBITDA is 6.9x. As usual, MHP's high debt level remains a concern, putting pressure on the share price, which has lost 20% since the start of the year to trade at USD 4.85 last week.

MHP's Eurobonds with maturity in 2029 stand at 98.0 (6.7% YtM), placing them in line with Ukraine's sovereign yield curve.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.5	65.0	19%	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	4.9	11.5	137%	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	43.0	--	--	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	6.12	12.0	96%	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	463	280	-40%	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 the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	305	350	15%	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	19.7	--	--	U/R	
JKX Oil & Gas	JKX LN	19.8	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	22.0	--	--	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	1956	6.7%	21.0%								
Iron Ore Mining												
Ferrexpo	FXPO	463	-2.3%	55.9%	3843	3839	24.0%	6.0	7.4	4.5	5.3	2.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	-1.4%	-5.6%	71	45	5.0%	8.3	13.6	3.4	4.5	0.2
Specialized Machinery												
Turboatom	TATM	8.4	0.0%	1.8%	129	126	3.8%	15.4	9.1	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	408	386	24.0%	12.9	17.5	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	305	16.4%	60.5%	603	595	3.0%	3.8	5.9	1.9	3.7	0.6
Enwell Energy (ex-Regal)	ENW	19.7	3.1%	-7.1%	89	35	21.6%	29.7	9.9	1.3	1.2	0.6
JKX Oil	JKX	19.8	-6.0%	-34.2%	48	156	50.4%	2.4	6.8	5.3	4.6	1.8
Power Utilities												
Centrenergy	CEEN	9.10	0.0%	26.4%	123	111	21.7%	54.0	13	6.6	4.7	0.1
Donbasenergo	DOEN	22.00	-12.0%	10.0%	19	18	14.2%	17.6	6.8	2.1	2.2	0.1
Consumer												
MHP	MHPC	4.85	0.6%	-19.4%	512	1827	32.5%	neg	8.5	5.4	6.8	0.9
Kernel	KER	54.50	1.3%	10.5%	1,177	2194	61.8%	10.0	3.2	5.0	3.5	0.5
Astarta	AST	43.00	-1.9%	64.1%	291	466	37.0%	35.3	27.7	3.8	3.4	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	6.12	-1.3%	39.7%	36	11	25.0%	3.1	2.8	0.3	0.4	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.460	7.0%	12.2%	1,031		1.8%	6.8	8.2	2.3	2.4	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	270	18.3%	17.8%	13.2%	215	-133	60	10.5%	-7.0%	2.9%
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	-5	-10	1.5%	-4.2%	-9.1%
Agroton	AGT	54	68	74	2	33	31	4.1%	48.2%	41.3%	5	12	13	9.5%	17.4%	17.4%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3795	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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