

Stock Market Update

Equity

The UX index edged up by 0.6% to 1967 points amid mixed trading last week in Kyiv-listed stocks. Quotes for domestic electricity producers demonstrated a notable rise after the National Energy Regulatory Commission (NERC) decided to ban electricity imports from Russia and Belarus until October. CentrEnergo (CEEN) advanced by 5.5% to UAH 9.60 and DonbasEnergo (DOEN) gained 6.8% to UAH 23.50.

UkrNafta (UNAF) was little-changed at UAH 308 per share amid complaints about the company's apparent refusal to pay out part of last year's profit to minority shareholders. On the downside, Raiffeisen Bank Aval (BAVL) shed 2.6% to 44.80 kopecks. Heavy machinery producer TurboAtom (TATM) declined by 3.9% to UAH 8.10 after a court ruling that forbade the company to pay an additional dividend of 72 kopecks per share from its FY18 profit to minority shareholders. Meanwhile, TurboAtom declared dividends of 37 kopecks and 27 kopecks from FY19 and FY20 respectively. The ex-rights date for the dividends was set on Jun 7.

In London trading, MHP (MHPC) saw some recovery, adding 3.5% to get back to the USD 5.00 level. Enwell Energy (formerly Regal) rose by 5.1% to GBp 20.70. Iron ore miner Ferrexpo (FXPO) corrected further by 3.2% to GBp 448 on clear profit-taking after the stock touched its 10-year closing high of GBp 501 back on May 12 amid this year's massive rally.

Warsaw-listed Kernel (KER) gained 6.1% to PLN 57.80, although the company did not beat expectations with its profit result for the Jan-Mar quarter. Kernel posted a rather small net profit of USD 16mn for the reported period. However, the company's net profit for the first 9 months of its reporting year jumped by 4.6x to USD 348mn, which translates into EPS of PLN 15.20.

On the currency front, the hryvnia edged down by 0.3% over the week to close at 27.51 UAH/USD on Friday.

Highlights

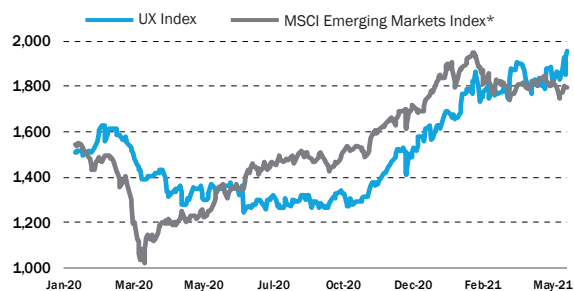
POLITICS AND ECONOMICS

- Dragon Capital's Fiala Buys Ukrayinska Pravda Media Outlet
- Ukraine's Industrial Production Jumps 13% YoY in April On Low Comparison Base

STOCKS IN THE NEWS

- Kernel's EBITDA Rises 7% YoY to USD 111mn in Jan-Mar Quarter

STOCK MARKET PERFORMANCE

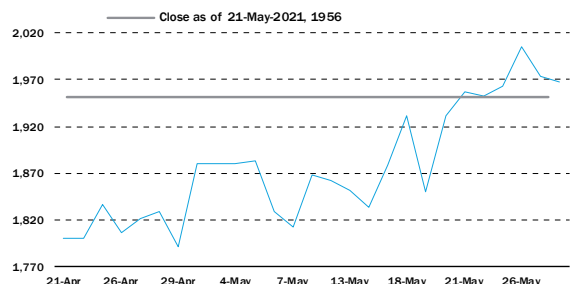


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1967	0.6%	21.6%
RTS	1603	2.2%	15.6%
WIG20	2236	4.5%	12.1%
MSCI EM	1360	2.3%	5.3%
S&P 500	4214	1.4%	12.2%

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	11.6%/11.0%	-0.7 p.p.	0.0 p.p.
Ukraine-2025	5.0%	-0.3 p.p.	0.1 p.p.
Ukraine-2028	6.5%	-0.1 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.51	0.3%	-2.7%
EUR/UAH	33.46	0.1%	-3.7%

Source: Eavex Capital

Dragon Capital's Fiala Buys Ukrayinska Pravda Media Outlet

by Will Ritter
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NEWS

Ukrayinska Pravda, Ukraine's preeminent Internet news outlet, was sold on Wednesday (May 26) to Tomáš Fiala, the majority owner and CEO of Kyiv-based investment house Dragon Capital. Ukrayinska Pravda had been independently owned since its founding in 1999 by its publisher Olena Prytula. The price of the deal was not disclosed. Fiala, a Czech national who has worked in Ukraine for more than 20 years, controls a large array of real estate holdings through Dragon Capital, and is already the owner of the national weekly news magazine Novoe Vremya. Prytula announced that she will stay on at the company in an advisory role and that Fiala has pledged not to interfere in the company's editorial operations or substantially change its format. Fiala said that Novoe Vremya, which has a Russian-language print edition, will be run separately from Ukrayinska Pravda, which is primarily a Ukrainian-language site.

COMMENTARY

Ukrayinska Pravda represents the gold standard of Ukraine's news landscape, a status which it paid for in blood; co-founder Georgiy Gongadze was murdered in 2000 after corruption exposes, and another of its top journalists, Pavel Sheremet, was killed in a still-unsolved car bombing in 2016. With no information about the valuation of the deal, we are left to estimate it in the range of USD 5-10 million based on the prior sale of the Kyiv Post newspaper, which has a strong brand but far less web traffic than Pravda, for around USD 1mn several years ago. We assume that Prytula had received a number of financially attractive offers in the past from Ukrainian or Russian oligarchs who simply wanted to have the news site watered down or closed in order to halt its coverage of uncomfortable topics. Fiala is viewed as a strongly pro-Western entrepreneur who has increasingly moved toward politics in recent years, and his purchase of Ukrayinska Pravda bodes well for its continued operation as a key pillar of the Ukrainian public information sphere. Prytula announced that Gongadze's two daughters will receive USD 100,000 each from the sale, while an additional USD 500,000 will go toward funding journalism prizes and study programs in the names of Gongadze and Sheremet.

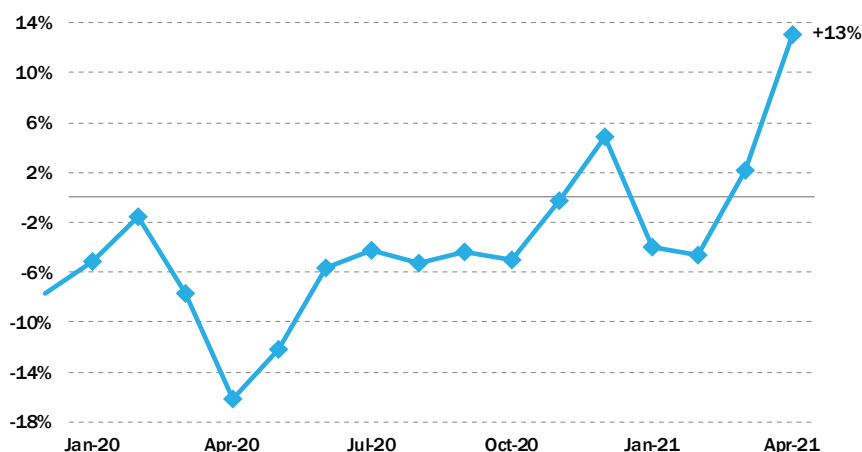
Ukraine's Industrial Production Jumps 13% YoY in April On Low Comparison Base

by Dmitry Churin
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NEWS

Ukraine's industrial production index jumped by 13% YoY in April due the low comparison base of last year, when the index slumped by 16% YoY, according to data published by the State Statistics Committee (UkrStat) on May 24. Compared to March, industrial output in the country decreased by 3.2% as a result of a 14.5% MoM drop in energy supplies, which was a clear seasonal pattern. The adjusted index grew by 2.7% on a month-on-month basis. Output for the January-April 4M21 period grew by 1.5% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The actual industrial production growth figure of 13% YoY for April substantially exceeded our forecast of a 7% YoY increase. The output rebound in the manufacturing sector was at 18% YoY in April, with the largest growth of 75% YoY being registered in electric equipment production. Meanwhile, the food production index declined by 3.4% YoY, as the food sector had been little affected by the quarantine in April 2020. We are now seeing an acceleration in industrial production in Ukraine, with the most notable driver being the favorable situation for iron ore and steel producers on global markets. In our view, the industrial index should rise by 3.2% YoY this year after the contraction of 5.2% YoY for 2020.

In other macroeconomic statistics, retail sales volume rocketed higher by 34% YoY in April, again on the low quarantine comparison base from 2020. The retail sales index is up by 14.0% YoY in 4M21.

Meanwhile, the agro sector's output as measured by UkrStat decreased by 4.7% YoY in the January-April period.

Kernel's EBITDA Rises 7% YoY to USD 111mn in Jan-Mar Quarter

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 57.80 Market Cap: USD 1291mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY20	0.9	0.6	10.9	5.2	2.7%
FY21E	0.7	0.5	3.5	3.2	2.7%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, increased its EBITDA by 7% YoY to USD 111mn in the 3Q21 Jan-Mar quarter (the company's financial year runs from July to June). According to the company's consolidated financial statement published on May 28, net revenue jumped by 66% YoY to USD 1.73bn in the period and net profit was USD 16mn compared to a net loss of USD 25mn a year earlier. For the 9 months ending in March, Kernel had revenue of USD 3.99bn (+37% YoY), EBITDA of USD 670mn (+2.1x YoY), and net profit of USD 348mn (+4.6x YoY). On the balance sheet side, Kernel's net debt stood at USD 1.07bn as of 31 March 2021, implying a Net Debt/EBITDA ratio of 1.4x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 0.6x.

KERNEL FINANCIAL RESULTS

USD mn	3Q FY20	3Q FY21	YoY	9M FY20	9M FY21	YoY
Net revenue	1,041	1,729	+66%	2,924	3,996	+37%
EBITDA	104	111	+7%	320	670	+109%
EBITDA margin	10.0%	6.4%	-3.6 p.p.	10.9%	16.8%	+5.8 p.p.
Net Income	-25	16	-/+	76	348	+358%
Net margin	-2.4%	0.9%	+3.3 p.p.	2.6%	8.7%	+6.1 p.p.

Source: Company data,

COMMENTARY

In our view, Kernel once again confirmed its ability to deliver solid financial results along with its business expansion. The company's improved bottom line in the historically weak Jan-Mar quarter reflects higher grain prices globally. Kernel's grain trading segment made the largest contribution on the EBITDA level in the quarter. The company is running a record high net profit of USD 348mn in the first 9 months of its reporting period, implying earnings per share of USD 4.14 (PLN 15.20). Taking into account our forecast of EPS of USD 4.52 for the full-year, the stock currently trades at an attractive P/E multiple of 3.5x.

In its short term outlook, the company said that sunflower seed planting campaign in Ukraine was successfully completed, despite being delayed a bit due to this year's late spring arrival. Kernel expects an increase in the nationwide acreage under sunflower in Ukraine by 5% to 6.9mn hectares, which should lead to a record harvest of sunflower seeds, assuming that there are no weather shocks in the summer. Ukraine's record sunflower seed harvest was 16.4mn tonnes in the 2019/20 agricultural year. Although the sunflower oil price has recently surged compared to the last year's average, the rise in prices for seeds has been even higher. As a result, Kernel faced a significant squeeze in its oilseed crushing margin this year. Thus, the company now has to rely mostly on its grain export segment for further profit growth in the Apr-Jun quarter. Kernel's well diversified business model allows it to offset a temporary downturn in the sunflower oil segment profitability. The KER stock has risen by 17% since the start of the year, trading at PLN 57.80 on Friday. The company's Eurobonds with maturity in 2027 are quoted at 108.0 (5.3% YtM).

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	57.8	65.0	12%	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	5.0	11.5	129%	BUY	<p>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.</p>
Astarta	AST PW	43.7	--	--	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	6.44	12.0	86%	BUY	<p>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.</p> <p>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.</p>
Iron Ore						
Ferrexpo	FXPO LN	448	280	-38%	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	308	350	14%	BUY	<p>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.</p>
Enwell Energy (ex-Regal)	ENW LN	20.7	--	--	U/R	
JKX Oil & Gas	JKX LN	20.5	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	23.5	--	--	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	9.60	15.00	56%	BUY	<p>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	0.448	0.33	-26%	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				2020	2021E	2020	2021E	
UX Index	UX	1967	0.6%	21.6%								
Iron Ore Mining												
Ferrexpo	FXPO	448	-3.2%	50.8%	3745	3741	24.0%	5.9	7.2	4.4	5.1	2.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	-5.6%	71	45	5.0%	8.3	13.6	3.4	4.5	0.2
Specialized Machinery												
Turboatom	TATM	8.1	-3.9%	-2.2%	124	121	3.8%	14.8	8.7	2.3	2.9	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	308	1.0%	62.1%	609	601	3.0%	3.8	5.9	1.9	3.7	0.6
Enwell Energy (ex-Regal)	ENW	20.7	5.1%	-2.4%	94	40	21.6%	31.4	10.5	1.5	1.3	0.6
JKX Oil	JKX	20.5	3.8%	-31.7%	50	158	50.4%	2.5	7.1	5.3	4.7	1.9
Power Utilities												
Centrenergo	CEEN	9.60	5.5%	33.3%	129	118	21.7%	57.0	14	7.0	5.0	0.1
Donbasenergo	DOEN	23.50	6.8%	17.5%	20	19	14.2%	18.8	7.3	2.2	2.4	0.1
Consumer												
MHP	MHPC	5.02	3.5%	-16.6%	530	1845	32.5%	neg	8.8	5.4	6.8	0.9
Kernel	KER	57.80	6.1%	17.2%	1,248	2265	61.8%	10.6	3.4	5.1	3.1	0.5
Astarta	AST	43.70	1.6%	66.8%	296	471	37.0%	35.8	28.2	3.9	3.5	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	6.44	5.2%	47.0%	38	13	25.0%	3.2	2.9	0.4	0.4	0.2
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.448	-2.6%	9.3%	1,004		1.8%	6.6	7.9	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																
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	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	720	8.7%	10.8%	15.9%	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			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.6%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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