

Stock Market Update

Equity

Kyiv-listed equities ended mixed last week amid a generally dry news flow, as business activity began to slow down in the country due to the approach of the summer season. The UX index shed 1.2% to close at 1944 points. Lightweight index component DonbasEnerg (DOEN) plunged by 27% to UAH 17.10 as market players saw a significant delay in the company's announced modernization of its power unit #6 at Slavyansk Thermal Power Plant. CentrEnerg (CEEN) corrected by 6.3% to UAH 9.00. Raiffeisen Bank Aval (BAVL) declined by 1.6% to 44.10 kopecks ahead of the ex-rights date on Jun 8 for a dividend payout of 3.31 kopecks per share. On the upside, UkrNafta (UNAF) gained 1.9% to UAH 314 and TurboAtom (TATM) added by 1.6% to UAH 8.20. As we reported earlier, the ex-rights date for UkrNafta's UAH 35.62 dividend per share was set on Jun 11.

In political developments, Parliament approved a bill that restored criminal responsibility for officials who provide false information on their income declarations. According to the bill, for deliberate false declaration, an official can be punished with a fine, public work, or imprisonment for up to two years, if the discrepancy with real income ranges from UAH 1.1mn to UAH 4.5mn. If the discrepancy exceeds UAH 4.5mn, the offender shall face imprisonment for up to two years. The bill is aimed at fighting high-level corruption in Ukraine.

The MHP (MHPC) stock was on a recovery trajectory, rising 12% to USD 5.62 amid overall upward momentum for Ukrainian agro producers. JX Oil&Gas (JKX) jumped by 27% to GBp 26.00 after the company's new well in Ukraine produced better output than expected.

Warsaw-listed Astarta (AST) surged by 20% to PLN 52.70 after the company announced a stock buy-back program with a cap price of up to PLN 125 per share.

Kernel (KER) gained 1.9% to PLN 58.90 and low-liquidity Agroton (AGT) also soared by 20% to PLN 7.70.

On the currency front, the hryvnia strengthened notably last week, by 0.8% to 27.28 UAH/USD, with the National Bank forced to intervene via forex purchases in order to prevent a larger UAH appreciation.

Highlights

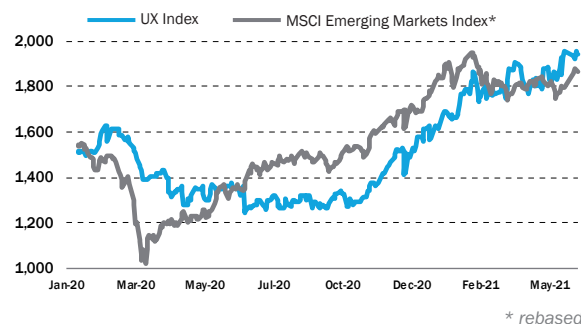
POLITICS AND ECONOMICS

- > Zelenskiy's Effort to Stop Nord Stream Pipeline Set to Fail

STOCKS IN THE NEWS

- > CEO Vlasenko Claims CentrEnerg Can Erase Massive 1Q Loss by Year-End

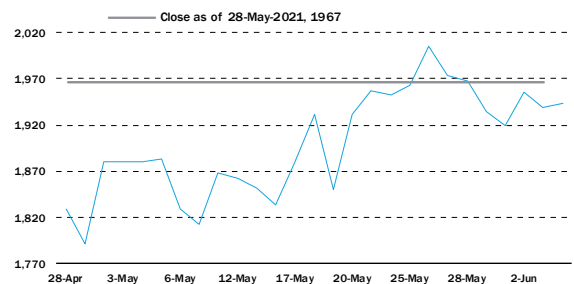
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1944	-1.2%	20.2%
RTS	1647	2.7%	18.7%
WIG20	2254	0.8%	13.0%
MSCI EM	1381	1.5%	7.0%
S&P 500	4229	0.4%	12.6%

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	11.6%/11.1%	+0.1 p.p.	+0.1 p.p.
Ukraine-2025	5.0%	0.0 p.p.	0.1 p.p.
Ukraine-2028	6.5%	0.0 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.28	-0.8%	-3.5%
EUR/UAH	33.06	-1.2%	-4.8%

Source: Eavex Capital

Zelenskiy's Effort to Stop Nord Stream Pipeline Set to Fail

by Will Ritter
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NEWS

President Zelenskiy is expected to hold a call with US President Biden this week in a last-ditch attempt to convince Biden to take actions that would prevent the completion of the so-called Nord Stream 2 natural gas pipeline between Russia and Germany. Biden has already disavowed his ability to stop the pipeline, stating that he lacks the power to “allow [or not allow] Germany to do something”. Biden also waived some of the US sanctions against the pipeline’s builders last month, calling them “counter-productive” to US-European relations. Biden is due to embark on his first major European diplomatic trip this week, culminating with the G7 summit in Britain and a meeting with Russian President Putin in Geneva on Jun 16. Zelenskiy said in an interview with the Axios news outlet that if Nord Stream comes on line later this year as planned, “Russia will have a great chance to win a victory over the United States”. In other remarks in what is apparently a public relations offensive by Zelenskiy against the US and Germany, the Ukrainian president complained in an interview with Germany’s largest daily newspaper Frankfurter Allgemeine about the German government’s refusal to provide lethal military aid to Ukraine. Zelenskiy claimed that Germany’s Green Party will offer such aid if it defeats the ruling Christian Democrats in September’s national election.

COMMENTARY

The refusal to overreach and browbeat the German government in respect to Nord Stream is vintage Biden, and it fits clearly with his stated policy of rebuilding relations with key US allies after the tumultuous years of the Trump administration. Indeed, it looks quite ridiculous for Zelenskiy to attempt to lecture the US on what Washington’s interests are or what would or would not be a “victory for Russia” over the US. The only hope to stop Nord Stream at this point is a Green Party-led German government, but Zelenskiy’s overt entreaties to the Greens look amateurish, as that party has no particularly affinity for Ukraine vis-a-vis Russia, and it opposes Nord Stream on environmental - not geopolitical - grounds. We also doubt that the Greens would take a more pro-Ukrainian position on the Donbass conflict than the one advanced by the Merkel government over the last 7 years. As we have stated previously, it was inevitable that Ukraine would eventually lose its monopoly on transportation of Russian gas to Europe, and if anything, Kyiv is fortunate that it was able to hold its privileged position for so long. We believe that the way for Ukraine to keep its own gas transportation network relevant going forward is to compete on price against Nord Stream, as Ukraine still offers the shortest distance from Russia and Central Asia to many European gas consumers.

CEO Vlasenko Claims CentrEnergO Can Erase Massive 1Q Loss by Year-End

by Dmitry Churin
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▶ CENTRENERGO (CEEN UK)

Price: UAH 9.00 Market Cap: USD 122mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.9	0.1	53.7	6.6	0.6%
2021E	0.9	0.1	12.3	4.6	2.4%

NEWS

The majority state-owned electricity generation company CentrEnergO (CEEN) will finish full-year 2021 with a profit despite its disastrous first quarter, the company's acting CEO Yuriy Vlasenko told journalists during a long interview to the LIGA business outlet. CentrEnergO started this year with a huge net loss of UAH 795mn in 1Q as a result of its need to turn on its expensive natural-gas-fired thermal electricity units in February. Vlasenko said the company's financial plan foresees a reduction of the net loss to UAH 30mn by the end of 3Q, with a 4Q net profit putting CentrEnergO in the black by the end of the year. Separately, Vlasenko stated that CentrEnergO's fair valuation is in a range between USD 200mn and USD 300mn, which translates into a range of UAH 15-22 per share at the current exchange rate.

COMMENTARY

According to our optimistic forecast, CentrEnergO will post a net profit of UAH 270mn for full-year 2021, which would imply UAH 0.73 earnings per share. Therefore, the forward-looking P/E for the CEEN stock is estimated at 12.3x. Vlasenko became CentrEnergO's acting CEO in February after a complete shake-up in the company's management performed by the State Property Fund, which was aimed at reducing the influence of industrialist Igor Kolomoyskiy on the company. The newly appointed management has changed CentrEnergO's strategy of selling electricity through auctions on the Ukrainian Energy Exchange. The company is now offering much smaller electricity volumes for sale, leading to a greater number of bidders for the offered lots. CentrEnergO also reduced the guarantee payment for the auction from 25% to 10%. The company said that advances from buyers helped to secure coal supplies for power units through the end of 2021.

The CEEN stock has gained 25% since the start of the year despite the company's poor financial results for 1Q21. Eavex Capital has a BUY rating for CentrEnergO with a target price of UAH 15.00 per share.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	58.9	65.0	10%	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	5.6	11.5	105%	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 60mn as poultry prices bounce back.
Astarta	AST PW	52.7	--	--	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	7.70	12.0	56%	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	460	280	-39%	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	314	350	11%	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	21.6	--	--	U/R	
JKX Oil & Gas	JKX LN	26.0	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	17.1	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.00	15.00	67%	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	0.441	0.33	-25%	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 set the ex-rights date for dividend on Jun 8. 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	1944	-1.2%	20.2%								
Iron Ore Mining												
Ferrexpo	FXPO	460	2.7%	54.9%	3845	3841	24.0%	6.1	7.4	4.5	5.3	2.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	-5.6%	71	45	5.0%	8.4	13.7	3.4	4.5	0.2
Specialized Machinery												
Turboatom	TATM	8.2	1.6%	-0.6%	127	124	3.8%	15.1	8.9	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	411	388	24.0%	13.0	17.6	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	314	1.9%	65.3%	624	616	3.0%	3.9	6.1	1.9	3.8	0.6
Enwell Energy (ex-Regal)	ENW	21.6	4.3%	1.9%	98	44	21.6%	32.8	10.9	1.7	1.5	0.7
JKX Oil	JKX	26.0	26.8%	-13.3%	63	172	50.4%	3.2	9.1	5.8	5.1	2.0
Power Utilities												
Centrenergy	CEEN	9.00	-6.3%	25.0%	122	110	21.7%	53.7	13	6.6	4.6	0.1
Donbasenergo	DOEN	17.10	-27.2%	-14.5%	15	14	14.2%	13.7	5.3	1.6	1.7	0.1
Consumer												
MHP	MHPC	5.62	12.0%	-6.6%	594	1909	32.5%	neg	9.9	5.6	7.1	0.9
Kernel	KER	58.90	1.9%	19.5%	1,272	2289	61.8%	10.8	3.4	5.2	3.2	0.5
Astarta	AST	52.70	20.6%	101.1%	357	532	37.0%	43.2	34.0	4.4	3.9	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	7.70	19.6%	75.8%	45	20	25.0%	3.9	3.5	0.6	0.7	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.441	-1.6%	7.6%	994		1.8%	6.6	7.9	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	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	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%	11.1%	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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