

Stock Market Update

Equity

Kyiv's UX index saw a sharp correction last week, falling 6.1% to 1820 points due to a 17% drop in UkrNafta (UNAF) after a UAH 35.62 dividend was cut from the price. The ex-rights date for the dividend was Jun 11, and therefore the UNAF stock dropped on Monday (Jun 14) to reflect the ex-rights date passage. In other local blue chips, Raiffeisen Bank Aval (BAVL) declined by 2.3% to 42.50 kopecks while DonbasEnergy (DOEN) rebounded further by 5.3% to UAH 20.00 after the slump seen earlier this month. CentrEnergy (CEEN) lost 6.2% to UAH 9.10 as the company's privatization was delayed once again. The State Property Fund said it would try to hold the auction for the government's 78% stake in CentrEnergy next March.

In major economic events, The National Bank decided to hold its key refinancing rate steady at 7.5% despite consumer inflation that accelerated to 9.5% in May. Our expectation of no rate hike by the monetary policy board proved correct, although most market analysts had predicted an increase in the key rate by 50-100 bps. The next decision on the policy rate will be on Jul 22 and there is a high probability that the rate will be raised to 8.0%.

Ukrainian companies listed in London finished mixed last week, with Ferrexpo (FXPO) falling 10% to GBp 416 while MHP (MHPC) rose 3.4% to USD 6.14. JKX Oil&Gas (JKX), which produces most of its output in Ukraine, advanced by 3.0% to GBp 25.00 per share. However, the JKX stock remains down by 15% since the start of the year.

In Warsaw, Kernel (KER) edged down by 1.2% to PLN 56.80 while Agroton (AGT) was flat at PLN 8.50 and Astarta (AST) saw a moderate gain of 1.4% to PLN 52.20 after a report that the company has begun its stock buy-back drive by purchasing 12,000 shares from the market at the average price of PLN 50.60.

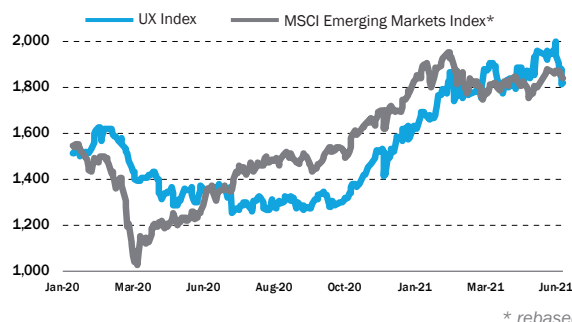
On the interbank currency market, the hryvnia devalued by 1.0% to 27.30 UAH/USD after the dollar rallied against major world currencies, notching its largest two-day gain of the year after US central bank officials brought forward the anticipated timing of the Federal Reserve's first post-COVID interest rate rise. The Fed said it will also reduce its USD 120bn-a-month "quantitative easing" bond purchases, which have been supporting financial markets since March 2020.

Highlights

POLITICS AND ECONOMICS

- > Biden-Putin Summit Resets US-Russian Relations
- > UkrAvtdor Issues USD 700mn State Guaranteed Eurobonds at 6.25%

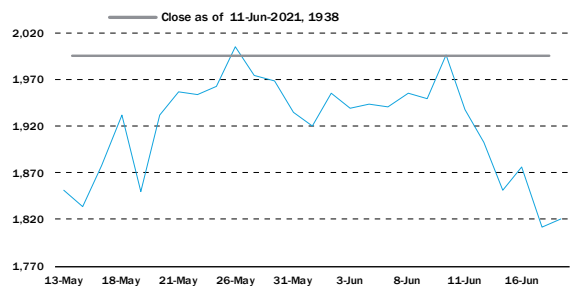
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1820	-6.1%	12.6%
RTS	1647	-1.8%	18.7%
WIG20	2221	-0.9%	11.4%
MSCI EM	1361	-1.5%	5.4%
S&P 500	4166	-1.9%	10.9%

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	11.5%/11.0%	-0.1 p.p.	0.0 p.p.
Ukraine-2025	5.2%	0.3 p.p.	0.3 p.p.
Ukraine-2028	6.6%	0.3 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.30	1.0%	-3.4%
EUR/UAH	32.76	0.0%	-5.7%

Source: Eavex Capital

Biden-Putin Summit Resets US-Russian Relations

by Will Ritter
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NEWS

US President Joseph Biden held his first face-to-face meeting with his Russian counterpart Vladimir Putin in Switzerland on Wednesday (Jun 16) in a highly anticipated event at a Geneva castle. The talks were described as constructive by both sides, although major new agreements were not announced. One immediate outcome of the meeting was that the sides agreed to reinstate their respective ambassadors in each other's capitals; the ambassadors had been withdrawn several months ago amid deteriorating relations. A Russian spokesman also said that fresh nuclear arms control talks are expected to begin in the coming weeks. From the Ukrainian side, Foreign Minister Dmytro Kuleba praised Biden for refusing to make any deals involving Ukraine with Putin without Kyiv's involvement. A controversy erupted in the US media after a major national outlet, Politico, reported that the US had frozen USD 100mn in military aid to Ukraine as a concession to the Kremlin after the meeting, and the story quickly spread into Ukraine's domestic media. Official White House press representative Jennifer Psaki strenuously denied that a freezing of the aid had occurred, pointing to the release of a USD 150mn tranche of military aid the previous week.

COMMENTARY

In our view, the Biden-Putin summit turned out to be quite uneventful, but it did establish a foundation for more stable US-Russian relations - a reset, to use the language of past such engagements - after the controversies and instability of the Trump years. We think the main goal of the Biden administration is to change the nature of the relationship from the open hostility of the last 7 or 8 years into something more like the adversarial respect of the US-Soviet relationship, and judging from the Russian reaction to the summit, the Kremlin is open to this approach. Despite complaints from some quarters that Biden is being too accommodating to Putin, we believe that a de-escalation in overall US-Russia tensions would be a clearly positive development for Ukraine. We see President Zelenskiy's attempts to focus on Ukrainian entry into NATO as a distraction from more pressing security and reform issues, as Kyiv clearly has no chance to join NATO on any kind of foreseeable timeline. On the other hand, since taking office in January, the Biden administration has been actively engaged in ways to help Kyiv to defend itself from any new potential Russian aggression, which improves Ukrainian security in the immediate and practical sense, rather than the theoretical sense associated with pie-in-the-sky NATO guarantees. We do not rule out that Politico's reporting on the frozen military aid could have been infiltrated with some sort of Russian or even Ukrainian disinformation by actors attempting to undermine the US-Ukrainian relationship.

UkrAvtodor Issues USD 700mn State Guaranteed Eurobonds at 6.25%

by Dmitry Churin
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NEWS

Ukraine's State Agency of Automobile Road (UkrAvtodor) has issued a USD 700mn Eurobond with maturity at 6.25%. The maturity of the bond will be in equal four tranches in December 2026, June 2027, December 2027 and June 2028. UkrAvtodor Eurobond was placed under a sovereign guarantee. Earlier this year, the Ukrainian government approved the provision of guarantees to Ukravtodor for UAH 20bn for loans for up to 15 years and a list of projects for the implementation of which funds can be attracted under these guarantees by increasing the volume of road construction and reconstruction.

COMMENTARY

The achieved pricing for UkrAvtodor's bond was lower than an initially expected yield of 6.65%. The issue received bids for a total amount of USD 2.4b as a result the three times oversubscription led to a lower interest rate. Assuming that the issue is a 7-year Eurobonds, its spread to the sovereign yield curve was just 36bps. It is crucial for the bond that it has a state guarantee as UkrAvtodor's financial results are unpredictable because they solely rely on the transfers from the national budget. UkrAvtodor has an income in form of budget allowances of UAH 11.4bn (USD 423mn) while the company's total income including other budget transfers for road construction was UAH 35.5bn (USD 1.32bn) in 2020. UkrAvtodor has a moderate net profit of UAH 134mn (USD 5.0mn) in 2020. On the cash flow side, UkrAvtodor had a net cash flow from operations in equivalent of USD 13mn in FY20 while a net operating cash flow back in FY19 was negative at USD -140,000. The net debt was USD 2.3bn as of start of the year. Taking into account that UkrAvtodor's bond has a state guarantee, we have a NEUTRAL view on the issue. However, we do think that the bond will be more volatile in a period of the overall market correction.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	56.8	65.0	14%	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	6.1	11.5	87%	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	52.2	--	--	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	8.50	12.0	41%	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	416	280	-33%	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	256	350	37%	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	22.2	--	--	U/R	
JKX Oil & Gas	JKX LN	25.5	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	20.0	--	--	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	0.425	0.33	-22%	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	1820	-6.1%	12.6%								
Iron Ore Mining												
Ferrexpo	FXPO	416	-10.0%	40.1%	3379	3375	24.0%	5.3	6.5	3.9	4.6	2.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.1	0.6%	-5.0%	72	45	5.0%	8.4	13.7	3.4	4.6	0.2
Specialized Machinery												
Turboatom	TATM	6.8	-18.7%	-18.2%	104	101	3.8%	12.4	7.3	2.0	2.4	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	410	388	24.0%	13.0	17.6	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	256	-17.2%	34.7%	509	501	3.0%	3.2	5.0	1.6	3.1	0.5
Enwell Energy (ex-Regal)	ENW	22.2	1.4%	4.7%	98	44	21.6%	32.7	10.9	1.7	1.5	0.7
JKX Oil	JKX	25.5	3.0%	-15.0%	60	169	50.4%	3.0	8.6	5.7	5.0	2.0
Power Utilities												
Centrenergy	CEEN	9.10	-6.2%	26.4%	123	111	21.7%	54.3	13	6.7	4.7	0.1
Donbasenergo	DOEN	20.00	5.3%	0.0%	17	16	14.2%	16.0	6.2	1.9	2.0	0.1
Consumer												
MHP	MHPC	6.14	3.4%	2.0%	649	1964	32.5%	neg	10.8	5.8	7.3	1.0
Kernel	KER	56.80	-1.2%	15.2%	1,213	2230	61.8%	10.3	3.3	5.0	3.1	0.5
Astarta	AST	52.20	1.4%	99.2%	350	525	37.0%	42.4	33.3	4.3	3.9	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.50	0.0%	94.1%	49	24	25.0%	4.2	3.8	0.8	0.8	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.425	-2.3%	3.7%	957		1.8%	6.3	7.6	2.1	2.2	0.24

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																
Centrenergo	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			11.5%	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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